


To: Councillor Stevens (Chairman)  
Councillors Davies, D Edwards, Emberson,  
Gittings, McKenna, Warman and J Williams

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15 July 2019

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### NOTICE OF MEETING - AUDIT AND GOVERNANCE COMMITTEE 23 JULY 2019

A meeting of the Audit and Governance Committee will be held on Tuesday, 23 July 2019 at 6.30 pm in the Council Chamber, Civic Offices, Reading. The Agenda for the meeting is set out below.

	<u>WARDS AFFECTED</u>	<u>Page No</u>
1. DECLARATIONS OF INTEREST		
2. MINUTES OF THE PREVIOUS MEETING HELD ON 16 APRIL 2019		5 - 8
3. QUESTIONS		9 - 16
4. AUDIT ARRANGEMENTS FOR BRIGHTER FUTURES FOR CHILDREN		17 - 22
<p>The report describes the Internal Audit arrangements and governance that are in place to ensure that children and education service related risks are appropriately monitored and acted on by BFfC.</p>		
5. INTERNAL AUDIT ANNUAL ASSURANCE REPORT		23 - 48
<p>This report presents the annual assurance report of the Chief Auditor required by the Accounts and Audit Regulations and the Public Sector Internal Audit Standards.</p>		
6. INTERNAL AUDIT QUARTERLY PROGRESS REPORT		49 - 58

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This report provides an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in April 2019.

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|------------|--|----------------------|
| <b>7.</b>  | <b>STRATEGIC RISK REGISTER Q1</b>  | <b>59 - 76</b>       |
|            | <p>This report provides an update on the Council's 2019/20 Strategic Risk Register (Quarter 1), in line with the requirements of the Council's risk management strategy.</p> |                      |
| <b>8.</b>  | <b>IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER</b>   | <b>77 - 96</b>       |
|            | <p>This report sets out a summary of those high and medium risk Internal Audit recommendations which remain outstanding together with an updated management response.</p>    |                      |
| <b>9.</b>  | <b>FINAL ACCOUNTS UPDATE</b>   | <b>97 - 100</b>      |
|            | <p>This report updates the Committee on progress with the completion of the Council's Final Accounts for 2016/17, 2017/18 and 2018/19.</p>                                   |                      |
| <b>10.</b> | <b>EXTERNAL AUDITOR UPDATE</b>   | <b>101 -<br/>180</b> |
|            | <p>To receive a report on the 2016/17 Accounts from the Council's external auditor EY.</p>   |                      |

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**Present:** Councillors Davies (Vice-Chair, in the Chair), Brock, Gittings, McKenna, Terry & Warman.

**Apologies:** Councillor Stevens.

**In attendance:** Councillor Lovelock (Leader of the Council).

### 29. MINUTES

The Minutes of the meeting of 24 January 2019 were confirmed as a correct record and signed by the Chair.

### 30. QUESTIONS

Questions on the following matters were submitted, in accordance with Standing Order 36(2):

	Questioner	Subject	Answer
1.	Colin Lee	Accounts 2016/17	CIlr Davies
2.	Colin Lee	Management Data	CIlr Davies
3.	Colin Lee	Accounts 2016/17	CIlr Davies

(The full text of the questions and replies was made available on the Reading Borough Council website).

### 31. INTERNAL AUDIT QUARTERLY PROGRESS REPORT

Paul Harrington, Chief Auditor, submitted a report providing an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in January 2019.

The report set out a summary of the audit reports in respect of Sundry Debtors; Bank Reconciliation; Budgetary Control & Savings Programme; Homes for Reading; Accounts Payable; Direct Payments (follow up); and Data Storage. The audits of Sundry Debtors; Accounts Payable; Direct Payments (follow up); and Data Storage had been given limited assurance, and the full audit reports were therefore attached as appendices to the report as well as the responsible officers being in attendance to provide an update on the progress being made to address the issues of concern.

The report also listed the audits that were currently in progress, or were planned for the remainder of 2018/19, and gave a summary of investigations work between April and December 2018.

**Resolved:** That the report be noted and an indication of the 'direction of travel' be included in future reports for audits undertaken on the key financial systems, to provide reassurance that issues identified by internal audit were being addressed appropriately by the services.

### 32. IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER

Further to Minute 24 of the meeting held on 24 January 2019, Jackie Yates, Executive Director of Resources, submitted a report setting out, at Appendix 1, the Implementation of Audit Recommendations tracker report.

The report explained that each recommendation was marked with a percentage complete which correlated to a red/amber/green rating (up to 25% complete: red, between 26% and 75%: amber, over 75% complete: green). Any recommendations that were less than 50% complete but had exceeded their agreed completion date were also marked red. In the tracker report at Appendix 1 there were 90 high and medium risk recommendations from Internal Audit, of which 48 (53%) were currently green, 26 (29%) were amber and 16 (18%) were red. Twenty seven recommendations had now been completed and would be removed from the next report. The 'red' rated risks had fallen from 19 to 16 since the last report to the meeting on 24 January 2019, but had increased in percentage terms as a result of the number of risks decreasing overall from 116 to 90.

The Committee noted that audit reviews specific to children and education, which included schools, were being reported directly to the children's company, Brighter Future for Children (BFfC). The Company had 'bought back' into the Council's internal audit service and Paul Harrington was reporting regularly to BFfC's audit committee. The Committee requested an update on the children and education related 'risks' that had been removed from the tracker presented to this meeting to provide reassurance that they were now being monitored through the Company's procedures.

In response to a question, Matt Davis, Assistant Director of Finance provided an update on Audit Recommendation 15, 'Debtors'. Written updates on progress with Audit Recommendations 15, 'Debtors', 28 'Governance and Data Protection' and 37 'Mosaic' would be provided, as requested.

#### Resolved:

- (1) That the high and medium risk Internal Audit recommendations and the responses to those risks be noted as set out in Appendix 1 to the report;
- (2) That a report from the Council's Contract Manager be provided to the next meeting setting out the audit arrangements for Brighter Futures for Children to provide assurance that children and education service related risks that had previously been reported to this Committee were being appropriately monitored and acted on by the Company.

### 33. ACCOUNTS 2016/17 & 2017/18 UPDATE

Further to Minute 25 of the meeting held on 24 January 2019, Matt Davis, Assistant Director of Finance, submitted a report providing an update on progress with the audit of the 2016/17 and 2017/18 accounts. The Committee noted that the 2016/17

## AUDIT AND GOVERNANCE COMMITTEE MINUTES - 16 APRIL 2019

Accounts should originally have been audited and signed off by 30 September 2017, and that regular reports had been made to the Committee since then providing updates on progress.

The report stated that the revised accounts containing new valuations had been submitted to the External Auditors (EY) in the first week of March 2019. This had been later than anticipated due to further issues with property valuations, in particular with the accounting treatment of historic Council Dwellings valuations. Whilst significant work had been undertaken to provide suitable evidence to the external auditors so that they could form an opinion on the 2016/17 accounts, it had not been possible to provide sufficient evidence retrospectively to prove fully the debtor and creditor balances carried forward at the end of March 2017. As a consequence, EY had advised that the accounts would be qualified for both these balances and as a result the Comprehensive Income & Expenditure Statement would correspondingly also be qualified. Specific additional work had been undertaken by staff to verify the closing 2017/18 debtor and creditor balances to ensure as far as possible this qualification did not continue into 2018/19.

The final set of accounts for 2016/17 had been sent to EY on 16 April 2019 and would be subject to their final checking procedures. The accounts for 2017/18 would be handed to EY as soon as it was practical, once the 2016/17 accounts had been finalised. The external auditors had advised that due to their commitments to other clients they would be unable to complete the audit of the 2017/18 accounts until later in the year. It had therefore been agreed that the 2017/18 and 2018/19 audits would be run concurrently in the late summer.

### Resolved:

- (1) That the progress made by the External Auditor and officers in finalising the 2016/17 accounts be noted;
- (2) That the expected qualification to the accounts for 2016/17 be noted;
- (3) That, following consultation with the Section 151 officer, the Chairman of the Audit and Governance Committee be authorised to sign the final version of the 2016/17 accounts.

### 34. EXTERNAL AUDITOR UPDATE

Maria Grindley, EY, said that the full version of EY's Audit Results report would be issued once the audit of the 2016/17 financial statements had been completed. The report would detail all the issues of control and weakness which had been identified and would set out recommendations for the future.

**Resolved:** That the position be noted.

(The meeting commenced at 6.30pm and closed at 7.23pm).





## READING BOROUGH COUNCIL

AUDIT & GOVERNANCE COMMITTEE

23 JULY 2019

### QUESTION NO. 1

Colin Lee to ask the Chairman of the Audit & Governance Committee:

#### Accounts 2016/17

When the Leader of the Council and indeed as I understand it you will be doing so, under delegated authority for the 2016/17 accounts, that is sign off the Borough Council's statutory financial statements (Accounts), what is the significance and purpose of that declaration and in terms of responsibilities, what legal obligations are you under to ensure approval by the full Council and the accuracy of those accounts?

REPLY by Councillor Stevens (Chair of the Audit & Governance Committee):

Full Council have effectively delegated the approval of the accounts to this Committee. The Council's Constitution assigns responsibility to the Audit & Governance Committee to:

- Approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- Consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts; and
- Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

This committee has received regular progress reports over the period during which the 2016/17 accounts have been in preparation and has challenged officers and external auditors to understand the fundamental issues that led to the delay in their publication.

In its scrutiny of the accounts process and sign off of the accounts the Committee and I place reliance on the Executive Director of Resources, who has a statutory and professional responsibility to ensure the accounts reflect a true and fair view. In addition, the committee places reliance on the work undertaken and certification of our external auditors, EY, who also have responsibilities to verify the accuracy of the accounting statements.

**READING BOROUGH COUNCIL**

**AUDIT & GOVERNANCE COMMITTEE**

**23 JULY 2019**

**QUESTION NO. 2**

Colin Lee to ask the Chairman of the Audit & Governance Committee:

**Accuracy of Statutory Accounts**

With whom does the accuracy of the statutory accounts rest within Reading Borough Council and to what extent does this committee have a duty and indeed obligation to ensure accuracy of those financial statements and the Council's books before they are sent for audit and how do you fulfil this obligation?

**REPLY** by Councillor Stevens (Chairman of the Audit & Governance Committee):

The responsibility for the accuracy of the Council's accounts, and underlying systems of financial control, rests with the Council's Executive Director of Resources under s151 of the Local Government Act 1972

Under the Accounts and Audit Regulations 2015 it is the responsibility of the Council's S151 officer to sign that the accounts represent a true and fair view of the financial position for the year end to which they relate and the income and expenditure for the year and submit them for audit purposes.

The role of the Committee is to keep under review the Council's internal control environment its underpinning systems and procedures and ensure that the financial and operational management of the Council is effective and facilitates the delivery of its functions.

**READING BOROUGH COUNCIL**

**AUDIT & GOVERNANCE COMMITTEE**

**23 JULY 2019**

**QUESTION NO. 3**

Colin Lee to ask the Chairman of the Audit & Governance Committee:

**Revisions to 2016/17 Accounts**

As I understand it a great many revisions have been made to the 2016/17 accounts yet the Council has only published version 2 on their website. Why has the Council not kept the public informed about the changes made to the 2016/17 accounts, and

- a) Have each of these many modified versions of the accounts been submitted to all Councillors for their consideration and if not why not?
- b) Can all versions be placed in the public domain for inspection?

**REPLY** by Councillor Stevens (Chairman of the Audit & Governance Committee):

This Committee has received regular reports both from Officers and the Council's external auditors on the progress with completing the 2016/17 audit and issues therein, those reports are in the public domain and available on the Council's website.

It is the Finance team's role under the direction of the Council's S151 Officer to prepare the accounts and manage the audit process.

The originally submitted accounts remained on the Council's internet pages until last week when the final audited version replaced them. This is usual practice across authorities.

Making more than one version of the accounts available would not aid the understanding of readers and it is not the Council's intention to make previous versions available.

READING BOROUGH COUNCIL

AUDIT & GOVERNANCE COMMITTEE

23 JULY 2019

QUESTION NO. 4

Peter Burt to ask the Chairman of the Audit & Governance Committee:

Public Access to Information

At the Audit and Governance Committee meeting dated 1 August 2018 I asked the chair of the committee to take action to ensure that all contracts and invitations to tender issued by Reading Borough Council warn potential contractors and purchasers that information provided by the Council may be placed in the public domain, and ensure that the Council complies with the Information Commissioner's guidance on this point.

In response I was advised that invitations to tender issued by Reading Borough Council contain provisions and clauses informing potential contractors that information provided by the Council is subject to the Freedom of Information Act 2000, and that the Council applies use of the Freedom of Information Act exemption relating to commercial confidentiality correctly.

In the light of the Information Commissioner's decision to order the Council to release in full details of the sale of Arthur Hill Pool, which the Council had claimed was covered by commercial confidentiality, it appears that the answer I was given last August was complacent and inaccurate.

Please can you tell me whether you agree with me that allowing public access to Council information is an important part of the scrutiny and governance process, and what steps the Audit and Governance Committee will take to ensure that in future Council officers comply with the law over their responsibilities to disclose information to members of the public?

REPLY by Councillor Stevens (Chairman of the Audit & Governance Committee):

I thank Mr Burt for his question.

The answer given to your question put to the Audit and Governance meeting of 1<sup>st</sup> August 2018 was neither complacent nor inaccurate.

You will recall that the final paragraph of that response stated the following:

“Section 43 of the Freedom of Information Act 2000 provides for the application of an exemption in respect of commercially sensitive information. I can assure Mr Burt that the S43 exemption, if relevant, is applied correctly and in accordance with the above Act.” I stand by that statement.

Mr Burt continues to misrepresent the ICO decision note. The ICO accepted that the Council had grounds for applying Section 43, as the information sought by you

included information relating to the commercial interests of the bidders, and a causal relationship existed between the potential disclosure of this information and the prejudice that the exemption is designed to protect against. What the ICO said the Council did not do was to show how the disclosure would prejudice the commercial interests of the bidders. For the avoidance of doubt ICO said that the Council had not demonstrated compliance with Section 43 of the Freedom of Information Act on one point.

Officers of the Council have acknowledged this failure and as you know a review of how FOI requests are dealt with is being carried out by the Chief Auditor. This review will in due course be brought to the Audit and Governance Committee.

I agree that allowing public access (whether permitted by the Freedom of Information Act or otherwise) to Council Information is an important part of the scrutiny and governance process; albeit it must be accepted that each Freedom of Information Act request is treated on its own merits as each contract and invitation to tender are different and may or may not be commercially sensitive in their own way and therefore, it is not possible apply a blanket exemption.

**READING BOROUGH COUNCIL**

**AUDIT & GOVERNANCE COMMITTEE**

**23 JULY 2019**

**QUESTION NO. 5**

Peter Burt to ask the Chairman of the Audit & Governance Committee:

**Chief Auditor's Review of FOI Procedures**

The Leader of the Council has announced that the Council's Chief Auditor has been asked to undertake a review of the Council's Freedom of Information procedures. Please can you advise me what the terms of reference for this review will be? Please can you also advise me whether the Chief Auditor will be taking evidence from members of the public about how the Council could improve its performance in this area?

**REPLY** by Councillor Stevens (Chairman of the Audit & Governance Committee):

The terms of reference for the review are to evaluate the Council's processes for capturing, processing and responding to Freedom for Information requests. The focus of the review is to verify that the Council's procedures are fit for purpose, comply with statutory timeframes and the basic principles of the Freedom of Information Act.

The Chief Auditor will not be taking evidence from members of the public.

## READING BOROUGH COUNCIL

### AUDIT & GOVERNANCE COMMITTEE

23 JULY 2019

#### QUESTION NO. 1

Councillor J Williams to ask the Chairman of the Audit & Governance Committee:

#### Previous Auditors, KPMG

In February, the ex-Leader of the Council blamed the previous auditors, KPMG, for the Council's failure to file its accounts, saying, "the entire committee feel strongly that the historic issues the current auditors EY have required the Council to deal with should have been identified by the previous auditors, KPMG." On the 25<sup>th</sup> June, the new Leader of the Council confirmed that he shared those concerns.

Can the Chair of Audit and Governance please tell us what communication has taken place between RBC and KPMG since handover to the current auditors? Can the Chair please summarise KPMG's response to these accusations?

REPLY by Councillor Stevens (Chairman of the Audit & Governance Committee):

The responsibility for preparing the Council's accounts rests solely with the Council. Whilst external auditors are under a duty to apply due diligence in forming an opinion as to the accuracy of those accounts, they cannot be held accountable for any mis-statements that subsequently occur so long as they have planned their work and undertaken such testing as required in accordance with auditing standards. Validation of the accounts was subject to assurances and explanations provided by officers as part of that process.

Both the Council's previous and current auditors have identified historic weaknesses in the Council's general financial framework and closure of accounts processes which they brought to the Council's attention in their Audit Results reports. The reports provided a warning that a risk existed that reported balances had the potential to be misstated. Our current auditors in signing off the 2015/16 account also issued a S24 Report which highlighting control weaknesses.

I am pleased to note the progress made by the Council in improving its systems of internal control and accounts closure process whilst addressing the areas of historic weakness set out in EY's Audit Results report.

Rather than focussing on any challenge to previous auditors our focus is rightly on continuing to develop capacity and capability within the organisation, bringing the 2017/18 and 2018/19 accounts to closure and looking to how the Council responds to the future financial challenges to deliver the best services for its residents rather than looking to the past. Consequently the Council has had no communication with KPMG since the handover to the current auditors.

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## READING BOROUGH COUNCIL

### REPORT BY THE ASSISTANT DIRECTOR OF PROCUREMENT AND CONTRACTS

<b>TO:</b>	AUDIT & GOVERNANCE COMMITTEE		
<b>DATE:</b>	23 <sup>rd</sup> July 2019		
<b>TITLE:</b>	AUDIT ARRANGEMENTS FOR BRIGHTER FUTURES FOR CHILDREN		
<b>LEAD COUNCILLORS:</b>	CLLR JASON BROCK, CLLR LIZ TERRY, CLLR ASHLEY PEARCE	<b>PORTFOLIO:</b>	LEADER OF THE COUNCIL, LEAD COUNCILLOR FOR CHILDREN, LEAD COUNCILLOR FOR EDUCATION
<b>SERVICE:</b>	PROCUREMENT & CONTRACTS	<b>WARDS:</b>	ALL
<b>LEAD OFFICER:</b>	KATE GRAEFE	<b>TEL:</b>	0118 937 4132/ 74132
<b>JOB TITLE:</b>	ASSISTANT DIRECTOR OF PROCUREMENT AND CONTRACTS	<b>E-MAIL:</b>	kate.graefe@reading.gov.uk

#### 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 Audit & Governance Committee on 19<sup>th</sup> April 2019 requested, "That a report from the Council's Contract Manager be provided to the next meeting setting out the audit arrangements for Brighter Futures for Children (BFFC) to provide assurance that children and education service related risks that had previously been reported to this Committee were now being appropriately monitored and acted on by the Company." This report has been prepared in response to that request.

#### 2. RECOMMENDED ACTION

It is recommended that Audit & Governance Committee:

- 2.1 Note the BFFC Internal Audit arrangements and governance in place to ensure that children and education service related risks are appropriately monitored and acted on by the Company.

#### 3. BACKGROUND

- 3.1 At Full Council on the 16<sup>th</sup> October 2018, it was agreed to transfer the delivery of the Council's children's services, including Education and Early Help, to a newly established, wholly owned subsidiary Company of the Council, Brighter Futures for Children Limited ('BFFC'/the 'Company') to allow a holistic, focussed approach to the promotion and delivery of improved outcomes for the Reading's children, young people and their families.
- 3.2 Following this decision, the Service Delivery Contract and other relevant arrangements were finalised to allow the transfer of Children's Services (excl. Fostering) to BFFC on the 1<sup>st</sup> December 2018. Fostering subsequently transferred on the 1<sup>st</sup> March 2019 following the Company's successful registration with Ofsted as an IFA (Independent Fostering Agency). The Council has 100% ownership of BFFC, which is

run by a senior management team reporting to the Company board of directors. In turn, the Board reports to the Council (Policy Committee) as its sole member/owner.

- 3.3 The set-up of BFFC has been undertaken on the basis that the Company will 'buy back' the majority of support functions from the Council for a minimum of two years (from 1st April 2019, i.e. earliest termination possible would be 31st March 2021). An overarching Managed Services Agreement acts as an umbrella contract for all the Service Level Agreements (SLAs) between the Company and the Council. The SLAs are then detailed within Schedules to the Managed Services Agreement and include services for:
- Audit & Investigation; and
  - Emergency Planning, Business Continuity & Risk Management

#### 4. BFFC AUDIT & PERFORMANCE ASSURANCE

- 4.1 BFFC operate an audit regime that is similar to the Council's, with the BFFC Audit & Risk Committee being a key component in the Company's Corporate Governance Arrangements. The Audit & Risk Committee meets quarterly throughout the year to review and discuss the effectiveness of the Company's internal control, governance and risk management arrangements. The Audit & Risk Committee is composed of two BFFC Non-Executive Directors, the BFFC Director of Finance & Resources and the BFFC Managing Director. The Chairperson is a Non-Executive Director appointed by the Company Board.
- 4.2 As part of the Company's assurance process, the Audit & Risk Committee routinely reports on its activity to the Company Board, including an Annual Report regarding its work throughout the year.
- 4.3 The Internal Audit Service is provided to the Company, by the Council's Internal Audit Team under a Service Level Agreement (SLA). As part of this agreement, services provided include:
- (i) An annual audit plan, which is compiled through discussions with the Director of Finance & Resources, senior managers and an understanding of risk. The outputs from the planning process have been prioritised to produce a plan that balances the following:
- the requirement to give an objective and evidenced based opinion on aspects of governance, risk management and internal control;
  - the requirement for internal audit to add value through improving controls, streamlining processes and supporting corporate priorities;
  - the resource and skill mix available to undertake the work.
- The plan is responsive in nature and all efforts are made to maximise coverage to provide the most effective and agile internal audit service possible that focuses on those key risks facing the organisation throughout the year. At the same time ensuring there is sufficient coverage and internal audit resource to provide an evidence-based assurance opinion that concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
  - The audit plan needs to be deliverable within available resources and the achievement of the audit plan is based on the assumption that the current internal audit structure will remain essentially unaltered and intact throughout the year.

- Resource requirements will be reviewed each year as part of the audit planning process and discussed with the BFFC Director of Finance & Resources. The service level agreement between the Council and the Company allows for 100 planned days (including schools); however it is for the BFFC Director of Finance and Company Board, in consultation with the Audit & Risk Committee to decide if there is a need for more or less coverage. There is no statutory minimum or maximum coverage; it is very much dependent on the level of assurance required and the risk appetite.
  - The Internal Audit coverage for 2019/20 with BFFC is as follows:
 

– Payment controls	Q3	20 days
– Performance Information Management	Q4	20 days
– Special Educational Needs and Disability	Q2	20 days
– 8 Schools	Q3/Q4	40 days
  - Two further schools were requested to be undertaken in quarter 1 and will be charged for as additional work.
  - In addition the following Q4 audits from 2018/19 were completed and reported to BFFC:
    - Child Sexual Exploitation follow up
    - Looked After Children
    - Foster Care follow up
    - 3 schools
- (ii) Reporting of performance: A status report on internal audit work is presented to the Company's Audit and Risk Committee on a quarterly basis. This provides an update on the progress made against the delivery of the Internal Audit Plan. The report provides details of audits completed to date, the assurance opinions given and the number and type of recommendations made. The report also provides a summary of internal audit performance, planning and any resourcing issues if applicable.
- (iii) Ad-hoc projects: The RBC Internal Audit Team will undertake special ad-hoc projects if and as required by the Company, depending on available resources.
- (iv) Investigations: The RBC Investigations Team will investigate irregularities which may include, but is not limited to, fraud or internal disciplinary investigations if/ as required by the Company.
- (v) Whistleblowing: Where the Council receives whistleblowing allegations relating to the service being provided by the Company under the Services Contract (whether received via the Council's website, telephone hotline or otherwise), these whistleblowing allegations will be monitored and reported to the Company. All whistleblowing allegations are dealt with in accordance with the Company's whistleblowing policy.
- 4.4 The RBC Chief Auditor has a standing invitation to attend the Company Audit & Risk Committee as does the BFFC external auditor. These parties have direct access to the Committee, or the Chair, as required.
- 4.5 The Company Audit & Risk Committee has also been provided with a list of all outstanding audit recommendations, along with individual internal audit reports for all audits completed over the past 2-years. From this, the BFFC Board and Audit & Risk Committee are committed to I take the necessary action to follow up outstanding audit recommendations.

- 4.6 The Company Audit & Risk Committee oversee the process for the appointment of the external auditor and receive and consider the external auditors report on the company's accounts and thus make recommendation to the BfFC Board regarding signing of the Accounts for onward submission to the Council and Companies House. The appointment of the external auditors itself, as well as requiring BfFC Board approval, is a 'reserved matter' under the Company Articles of Association. Approval of the appointment of the external auditor was provided by Policy Committee (in its capacity as sole Member) in January 2019. The Auditors report on the BfFC Accounts will be completed and filed in August and form part of the annual report on performance referred to in 4.7, below, to be reported to Policy Committee in September.

*Service Performance & Financial Assurance:*

- 4.7 Whilst this report is about audit arrangement assurance, the following paragraphs are included to provide comfort on the contract governance arrangements in place to monitor service and financial performance of the Company. In order to provide the appropriate assurances to the Council on service delivery the agreed contract monitoring and governance framework includes:

- An annual report from BfFC on performance, including the Company Audited Accounts, to Policy Committee (in its capacity as sole member);
- An annual report from BfFC on the Company's Business Plan to Policy Committee (in its capacity as sole member), which includes the agreement of the Contract Sum to be paid to the Company for delivery of services;
- Reports from BfFC to the Adults, Children's and Education Committee;
- Monthly performance monitoring of Children's Services (social care) service delivery through the Children's Services Improvement Board, chaired by an independent chair and supported by relevant RBC partners such as the Police, Health and LCSB (to transfer to the Multi-Agency Safeguarding Arrangements [MASA] in 2019).
- Monthly financial monitoring through the contract management function underpinned by contractual reporting requirements including open book provision of data;
- Bi-monthly (6 times a year) Contract Management Group meetings to review overall contract performance and also review performance of the Council in terms of Support Services provision.

(It should be noted that whilst Children's Services are under intervention, there is also a reporting and oversight requirement between the Company Chair and the Department for Education (DFE)).

- 4.8 Underpinning all of the above is a set of contract Key Performance Indicators. In order to allow the Company sufficient operational independence and permit the Company Board to proactively address any issues in performance that may be indicated by the KPIs, the provision of reporting information and the proposed timing of the Contract Management meetings has been scheduled to allow the BfFC Board at least one opportunity to view and comment on the information to be provided to RBC prior to issue. Practically this means that:

- Financial information is provided 30 days after the end of the period to be reported, i.e. Jan 2019 financial data should be provided by no later than 1<sup>st</sup> March
- The Contract Management Group will review other performance information once every 2 months and with an approximate 60 day time lag, i.e. Dec 2018 and Jan 2019 performance information should be advised for consideration at the March 2019 Contract Management Group, Feb & Mar 2019 information will be considered at the May 2019 meeting, and so on.

**5. CONTRIBUTION TO STRATEGIC AIMS**

- 5.1 All elements within this report are focused on the Corporate Plan priorities of: Ensuring the Council is fit for the future and Protecting and enhancing the lives of vulnerable adults and children.

**6. COMMUNITY ENGAGEMENT AND INFORMATION**

- 6.1 No community engagement has been carried out or is required in the creation of or as a result of this report.

**7. EQUALITY IMPACT ASSESSMENT**

- 7.1 An Equality Impact Assessment (EIA) is not relevant to the report or its recommendations.

**8. LEGAL IMPLICATIONS**

- 8.1 There are no legal implications arising directly from this report.

**9. FINANCIAL IMPLICATIONS**

- 9.1 There are no financial implications arising directly from this report.

**10. BACKGROUND PAPERS**

- 10.1 16 October Full Council Report - Establishment of BFfC

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**READING BOROUGH COUNCIL  
EXECUTIVE DIRECTOR OF RESOURCES**

<b>TO:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>		
<b>DATE:</b>	23 July 2019		
<b>TITLE:</b>	<b>INTERNAL AUDIT ANNUAL ASSURANCE REPORT</b>		
<b>LEAD COUNCILLOR:</b>	<b>COUNCILLOR EMBERSON</b>	<b>PORTFOLIO:</b>	<b>CORPORATE AND CONSUMER SERVICES</b>
<b>SERVICE:</b>	<b>FINANCE</b>	<b>WARDS:</b>	<b>N/A</b>
<b>LEAD OFFICER:</b>	<b>PAUL HARRINGTON</b>	<b>TEL:</b>	<b>9372695</b>
<b>JOB TITLE:</b>	<b>CHIEF AUDITOR</b>	<b>E-MAIL:</b>	<a href="mailto:Paul.Harrington@reading.gov.uk">Paul.Harrington@reading.gov.uk</a>

## 1. PURPOSE OF THE REPORT

1.1 The attached annual assurance report of the Chief Auditor (required by the Accounts and Audit regulations and the Public Sector Internal Audit Standards), sets out:

- the Chief Auditor’s opinion on the overall adequacy and effectiveness of the organisation’s internal control environment, drawing attention to any issues particularly relevant to the preparation of the Annual Governance Statement;
- the key themes arising from the work of the Audit Team during the 2018/2019 financial year; and
- the audit work undertaken with that planned, summarising the performance of the Internal Audit function against its performance measures and targets.

1.2 The results of individual audits have been issued to the relevant Directors, Heads of Service (now Assistant Directors) and managers throughout the year. In addition, quarterly reports have been issued to, and discussed with, the Corporate Management Team (CMT) and the Audit & Governance Committee in order to report on standards of internal control, to provide appropriate focus on weaknesses and to progress remedial action where necessary

1.3 The following document is appended:

Appendix 1 - Internal Audit Annual Assurance Report

## 2. RECOMMENDATIONS

2.1 The Audit & Governance Committee are requested to note the assurance opinion given by the Chief Auditor and consider the issues raised in the annual report.

### 3. SUMMARY

- 3.1 The Chief Auditor is required to provide the Council with an opinion on the adequacy and effectiveness of the Council's risk management, internal control and governance processes. The opinion is designed to assist the Council to meet its obligations, under regulation 4 of the Accounts and Audit Regulations.
- 3.2 Whilst no assurance can ever be absolute, on the basis of work completed during the course of the year, the Chief Auditor has concluded that **reasonable assurance** can now be placed on the adequacy and effectiveness of the Council's internal control framework within those areas audited in 2018/19. Whilst this is an improvement on the last two financial years, where only limited assurance could be given, there is still work to be done.
- 3.3 Of particular importance in determining the limited opinion in 2016/17 and 2017/18 were the key weaknesses identified within some of the Council's financial systems. In the past basic financial controls have not worked as expected, for example bank reconciliations have not been performed and journal control was poor. The Council recognised that it needed to improve financial controls and strengthened journal creation and authorisation with clear audit trails to support journal entries in place for 2018/19, along with a separation of duties between creation and authorisation.
- 3.4 Daily bank reconciliations have been undertaken throughout the financial year to check that all receipts in the bank account are processed by the cash system, so it is known that cash has been allocated. However, monthly reconciliations providing a cumulative oversight were still not being performed. As auditors we would expect the bank reconciliation to be completed and reviewed on a monthly basis.
- 3.5 Recommendations were made in the past by both Internal and External Audit to monitor the completion of control account reconciliations to ensure they are timely, completed satisfactorily and reviewed. A process was put into place in February 2019 and instructions have been provided to relevant staff to ensure control account reconciliations are submitted centrally to Finance.
- 3.6 There is also now a clear segregation of duties between producing the budgets (Budget Managers assisted by Finance Business Partners), approving them (Policy Committee and Council), uploading them (Financial Systems Accountant) and reconciling them (Finance Business Partners at directorate level and Financial Analysis and Planning Lead at organisational level). We are also satisfied that the procedures for developing and monitoring the implementation of the savings programme remain robust and promote scrutiny of the financial viability of savings.



- 3.7 We would however like to see documented workflows and procedures for key financial processes (e.g. bank rec and accounts payable), as such procedures will limit reliance on key individuals and minimise the risk of single points of failure. Corporate instructions such as Financial Regulations and the scheme of delegation require updating, with financial delegations reflected in the Council's financial management system.
- 3.8 Due to concerns regarding the low levels of implementation of agreed recommendations arising from internal and external audits, the Director of Resources implemented a reporting tool to list the current outstanding audit recommendations, together with their latest agreed implementation date and an update from the responsible officer on progress towards the implementation of agreed recommendations and actions. Where there was a lack of progress with implementation, the Assistant Director and responsible officer are asked to attend a meeting of the Audit & Governance Committee to explain the difficulties with implementation and the steps they were taking to address them.
- 3.9 During 2017/2018 we reported that only financial performance was reported to the Policy and Audit and Governance Committees throughout 2018/2019. Operational (as well as financial) performance was reported quarterly to the Policy Committee summarising performance, against the success measures published in the Corporate Plan to monitor progress against the Council's six priorities.
- 3.10 A review of all of the Council's employment policies has been progressed throughout the year to ensure policies are clear, easy to understand, up-to-date and reviewed regularly. This programme of work is welcomed by Internal Audit, as good employment policies strengthen corporate governance and should support a culture based on trust, fairness and inclusion. They can also speed the decision-making process by ensuring that clear guidance is readily available. With the launch on the new intranet, accessibility of policies and procedures has been greatly improved. In addition a significant piece of work to re-implement and roll out the functionality of ITrent will further strengthen governance arrangements.
- 3.11 There remain key pieces of work to be put in place to improve controls within accounts payable and accounts receivable and governance, such as greater corporate oversight over information security and how the Council stores data and adheres to retention policies.
- 3.12 The basis for the assurance opinion is set out in section 2 of the attached report and the key areas for improvement identified during our audit work are set out in section 4. These are reviews where limited assurance has been given and improvements are needed.

#### **4. CONTRIBUTION TO STRATEGIC AIMS**

- 4.1 Audit Services aims to assist in the achievement of the strategic aims of the Council set out in the Corporate Plan by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In particular audit work is likely to contribute to the priority of remaining financially sustainable to deliver our service priorities.

#### **5. COMMUNITY ENGAGEMENT AND INFORMATION**

- 5.1 N/A

#### **6. LEGAL IMPLICATIONS**

- 6.1 Legislation dictates the objectives and purpose of the internal audit service the requirement for an internal audit function is either explicit or implied in the relevant local government legislation.
- 6.2 Section 151 of the Local Government act 1972 requires every local authority to “make arrangements for the proper administration of its financial affairs” and to ensure that one of the officers has responsibility for the administration of those affairs.
- 6.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations in that authorities must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices”.

#### **7. FINANCIAL IMPLICATIONS**

- 7.1 N/A

#### **8. BACKGROUND PAPERS**

- 8.1 N/A

# Internal Audit & Investigations Annual Assurance report

For the year ended 31 March 2019

## 1.0 OVERVIEW

### 1.1 Introduction

- 1.1.1 The Accounts and Audit (England) Regulations require each local authority to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices. Proper practice is defined within the Public Sector Internal Audit Standards<sup>1</sup> and corresponding Local Government Application Note<sup>2</sup>.
- 1.1.2 The Public Sector Internal Audit Standards requires the Head of Internal Audit (Chief Auditor) to provide a written report to those charged with governance, to support the Annual Governance Statement, which should include an opinion of the overall adequacy and effectiveness of the Council's control environment. **The opinion does not imply that Internal Audit have reviewed all risks relating to the organisation.**
- 1.1.3 Reporting the work of internal audit to the Audit and Governance Committee provides the Committee with an opportunity to review and monitor its activity and gain assurance that its internal audit function is fulfilling its statutory obligations. This is an essential component of corporate governance. The Audit and Governance Committee receives quarterly reports during the year regarding internal audit and investigations activities, which provide a detailed overview of the work undertaken.

### 1.2 Purpose & Scope of Report

- 1.2.1 The report:
- a) includes an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management and internal control environment
  - b) discloses any qualifications to that opinion, together with the reasons for the qualification
  - c) presents a summary of the audit and anti-fraud work from which the opinion is derived, including reliance placed on work by other assurance bodies
  - d) draws attention to any issues the Chief Auditor judges particularly relevant to the preparation of the Annual Governance Statement.

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<sup>1</sup> Public Sector Internal Audit Standards - Applying the CMIIA International Standards to the UK Public Sector. Institute of Internal Auditors, April 2013 (amended 2016)

<sup>2</sup> CIPFA Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards

### 1.3 Control Environment

- 1.3.1 The Management of the Council are responsible for ensuring that the organisation operates in accordance with the law and proper standards, that public funds are safeguarded, properly accounted for and used economically, efficiently and effectively.
- 1.3.2 Management are also responsible for ensuring there is a sound system of internal control, which includes arrangements for managing risk. The three key elements of the Council's control environment comprise; *internal control, governance, and risk management* arrangements. These three elements help ensure that the Council's strategies, plans, priorities and objectives are met and that policies and procedures are complied with in order to minimise risk to a reasonable level.

#### Internal Audit Effectiveness

- 1.3.3 As a prerequisite for giving an assurance opinion on the overall adequacy and effectiveness of the Council's control environment, the Chief Auditor is required to confirm the effectiveness of the Internal Audit Service and its resultant fitness for purpose to carry out work that informs the annual assurance opinion.
- 1.3.4 An external assessment of the internal audit service conducted by the Chartered Institute of Public Finance and Accountancy (CIPFA) in the summer of 2017 concluded that the Council's Internal Audit function 'generally conforms' to the requirements of the Public Sector Internal Audit Standards. The Assessor concluded that, *"Reading Borough Council has a professional and well-respected internal audit service that is effective and not only follows best practice, but is itself a good example of best practice in local government internal audit"*.
- 1.3.5 The Chief Auditor undertakes periodic reviews of the quality of internal audit work completed and also reviews all draft and final reports issued. In delivering the Internal Audit Service, the planning, conducting and reporting on reviews have been completed in conformance with the requirements of the PSIAS, published by the Chartered Institute of Internal Auditors and the subsequent Local Government Application Note in respect of PSIAS published by CIPFA.
- 1.3.6 The Chief Auditor is therefore able to report for 2018/19 compliance with the Public Sector Internal Audit Standards and considers the Internal Audit Service to still be effective. However, there has been a high turnover of staff (40%) over the past 18 months, which has resulted in a temporary shortage of experience, as well as skilled staff.

## 2.0 ANNUAL ASSURANCE STATEMENT

### 2.1 Basis of Assurance Opinion

2.1.1 This opinion is based on an assessment of:

- The design and operation of the underpinning governance and assurance framework
- The range of opinions arising from risk based and other audit assignments that have been reported during the year taking into account the relative significance of these areas.
- Whether management properly implement actions arising from audit work, to mitigate identified control risks within reasonable timescales.

2.1.2 The internal audit plan for 2018/19 was developed to provide independent assurance on the adequacy and effectiveness of the systems of internal control, governance and the management of risk. The Plan was approved by the Audit and Governance Committee in January 2018. This Plan did not include resources deployed on reactive and proactive fraud which is referred to in section 9. Progress reports from the Chief Auditor were presented to the Committee at quarterly meetings throughout the financial year.

### 2.2 Annual Assurance Opinion for 2018/19

2.2.1 Audit work has been undertaken to obtain all information and explanations considered necessary to provide sufficient assurance that the control environment is both reasonable and effective. The Chief Auditor's opinion on the overall adequacy and effectiveness of the Council's risk management systems and internal control environment, including any qualifications to that opinion, is as follows:

Whilst no assurance can ever be absolute, on the basis of work completed during the course of the year, the Chief Auditor has concluded that **reasonable assurance** can now be placed on the adequacy and effectiveness of the Council's internal control framework within those areas audited in 2018/19. Whilst this is an improvement on the last two financial years and the direction of travel is one of improvement, there is still more work to be done.

- 2.2.2 The audit opinion is expressed using the same scale used for internal audit report opinions. The scale ranges from Substantial to Reasonable, through to Limited and No Assurance. This opinion is reflective of the number and level of assurance opinions provided throughout and the improvements to the control framework of some of those areas where weaknesses were identified in the past. An explanation of the assurance opinion levels can be found in annex 1.
- 2.2.3 Of particular importance in determining the limited opinion in 2016/17 and 2017/18 were the key weaknesses identified within some of the Council's financial systems. In the past basic financial controls have not worked as expected, for example bank reconciliations have not been performed and journal control was poor. The Council recognised that it needed to improve financial controls and has rectified the issues identified in previous years with regards to journal control. Testing of samples of journals revealed that there are now clear audit trails to support creation and separation of duties in the authorisation process for journals processed in 2018/2019.
- 2.2.4 Daily bank reconciliations have been undertaken throughout the financial year to check that all receipts in the bank account are processed by the cash system, so it is known that cash has been allocated. However, monthly reconciliations providing a cumulative oversight were still not being performed. As auditors we would expect the bank reconciliation to be completed and reviewed on a monthly basis. Documented procedures to confirm the standards and methodology for producing and monitoring both the bank reconciliation and all contrite daily and monthly reconciliations were expected to be complete by the end of the 2018/2019 financial year.
- 2.2.5 Recommendations were made in the past by both Internal and External Audit to monitor the completion of control account reconciliations to ensure they are timely, completed satisfactorily and reviewed. Instructions have been provided to relevant staff to ensure control account reconciliations are submitted centrally to Finance. A template control sheet has been designed to record the area being reconciled, the month and year, the relevant general ledger codes, the name of the person preparing the reconciliation, the name of the person reviewing the reconciliation and the date that it was sent to Finance. This process commenced in February 2019, but has not been tested in detail by Internal Audit. However, once embedded this will address outstanding audit recommendations.
- 2.2.6 We did identify a particular weakness in relation to the reconciliation process between iTrent and Oracle Fusion, specifically the prompt posting of adjustments to ensure these are accurately and promptly reflected in the monthly reconciliation.

- 2.2.7 The projected revenue and capital outturn positions for 2018/19 have been reported quarterly to both the Policy and Audit & Governance Committee summarising performance against the measures of success published in the Council's Corporate Plan. We are also satisfied that the procedures for developing and monitoring the implementation of the savings programme remain robust and promote scrutiny of the financial viability of savings.
- 2.2.8 There is also now a clear segregation of duties between producing the budgets (Budget Managers assisted by Finance Business Partners), approving them (Policy Committee and Council), uploading them (Financial Systems Accountant) and reconciling them (Finance Business Partners at directorate level and Financial Analysis and Planning Lead at organisational level).
- 2.2.9 We note that a new finance structure was put into operation at the beginning of the financial year to increase resilience and capability. Appointments have also now been made to the more senior positions in the new structure. However, it is too early to comment on whether the new structure has been a success and is operating as intended.
- 2.2.10 We would also like to see documented procedures for key financial processes, as such procedures will limit reliance on key individuals and minimise the risk of single points of failure. Corporate instructions such as Financial Regulations require updating and a scheme of financial delegation needs better clarification and in turn reflected in the Council's financial management system.
- 2.2.11 In order to deliver the Corporate Plan and Medium Term Financial Plan there was a need to strengthen internal capacity, as there had been an over-reliance on interim and agency staff in key management posts. At the beginning of the financial year the Council recruited a Director of Resources, Heads of Finance, Procurement and Contracts, and HR and Organisational Development, strengthening the corporate capacity of the authority.
- 2.2.12 During 2018/2019 a new Council wide structure was implemented whereby Directors are now designated Executive Directors, responsible to the Council for the financial performance and service outcomes of their Directorate. Directorate delivery units will drive change across the services; ensuring major projects are monitored and delivered. The Executive Directors are the "Chief Officers" of the Council. The Executive Directors are, along with the Chief Executive Officer, accountable to Members directly for performance and financial outcomes. Heads of Service, who report to the Executive Directors, are the designated Assistant Directors.
- 2.2.13 The structure has strengthened the senior management structure of the corporate centre and built capacity to take forward the authority's transformation programme.



- 2.2.14 Due to concerns regarding the low levels of implementation of agreed recommendations arising from internal and external audits, the Director of Resources implemented a reporting tool to list the current outstanding audit recommendations, together with their latest agreed implementation date and an update from the responsible officer on progress towards the implementation of agreed recommendations and actions. Where there was a lack of progress with implementation, the Head of Service (now Assistant Director) and responsible officer are asked to attend a meeting of the Audit & Governance Committee to explain the difficulties with implementation and the steps they were taking to address them.
- 2.2.15 Some of the key areas for improvement identified during our audit work are set out in section 4. These are reviews where limited assurance has been given and improvements are needed.

### 2.3 Inherent qualifications to the opinion

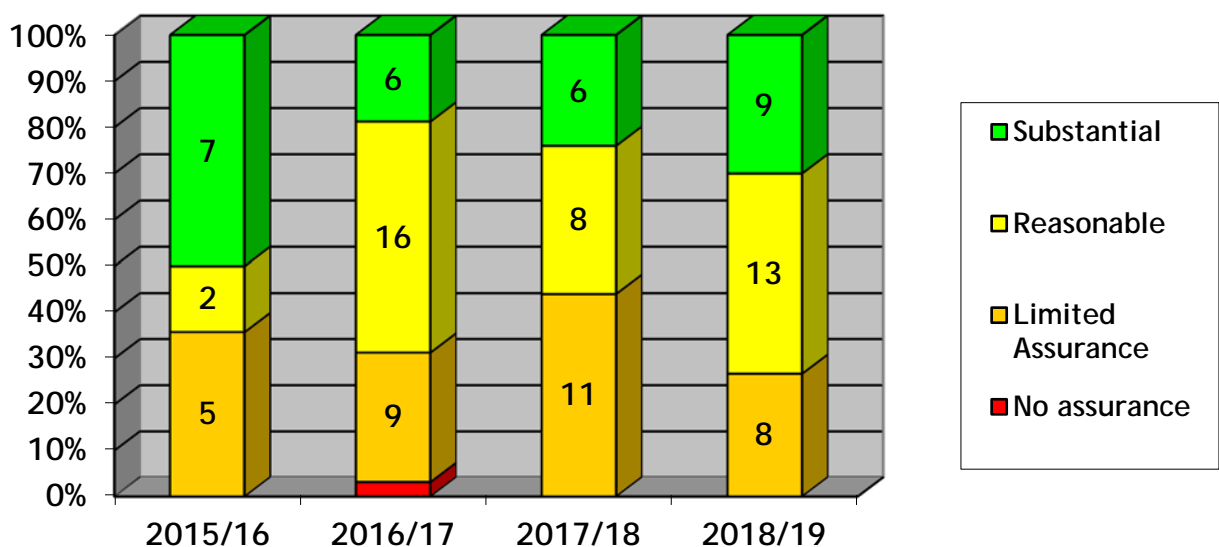
- 2.3.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives and therefore can only provide reasonable, not absolute, assurances of effectiveness.
- 2.3.2 It has been noticeably difficult to get timely replies and engagement with some of our (draft) reports. This has been slow in many cases and there has been reluctance in some areas to provide responses to audit recommendations.
- 2.3.3 In continuing to provide ongoing robust assurance on the control environment, Internal Audit will need management's support to ensure that reviews are undertaken as planned and management responses are prompt and appropriate.

**3 SUMMARY OF THE AUDIT WORK**

- 3.1 The annual 2018/19 Annual Audit Plan was developed in line with the Public Sector Internal Audit Standards for Internal Audit. Although satisfactory progress has been made against the Plan during the period, a number of audits had to be deferred, due to both resource issues and unplanned work.
- 3.2 We completed 34 audits (including follow ups), encompassing 8 school reviews during the year. The table below summarises the report classifications.

Report Classification (2017/18)	No. of Audits
Substantial Assurance	09
Reasonable Assurance	13
Limited Assurance	08
No Assurance	0
Assurance N/A	4
<b>Total</b>	<b>34</b>
Reports in the process of being completed	3
Grant Claims certified	5
<b>Total</b>	<b>42</b>
No of projects cancelled or deferred	05

- 3.3 The graph below represents the percentage of audit assurance opinions (with the number of reports issued) for all audits issued.



### 3.4 Priority of Recommendations

- 3.4.1 At the time of writing we have made a total of 127 audit recommendations in our reports (both draft and finalised), of which 13 (10%) were classified as a high priority.
- 3.4.2 In the following section we have set out the high level key findings identified during our audit work for 2018/2019.
- 3.4.3 Details of each individual report ratings and priority of recommendations for each audit can be found at Annex 2.

## 4 LIMITED ASSURANCE REVIEWS

- 4.1 Some of the key areas for improvement identified during our audit work throughout the year are set out below:
- i. **Accounts receivable:** no progress has been made in centralising the accounts receivable function, and the same control deficiencies reported in 2017/2018 apply for 2018/2019. Services are not (always) raising invoices promptly or providing sufficient detail on invoices, which in turn affects effective collection performance.*
  - ii. **Accounts Payable:** Although work has taken place to address concerns raised in previous audit reports, many of the actions are work in progress. These include, but are not limited to: open purchase order control, lack of documented business process and office procedures, no central control over suppliers.*
  - iii. **Data Storage:** corporate governance over data processing and storage issues require improvement as RBC may be failing in not removing data it no longer requires for processing or failing to identify personal data that it holds and ensure that it is adequately protected.*
  - iv. **Delayed transfers of care:** at the time of our audit the systems for the recording of individuals ready to be discharged from hospital are resource intensive, with known data quality issues.*
  - v. **Continuing health care:** at the time of our audit we identified a risk that the Council is not identifying potential CHC cases and so may be contributing for the costs of care for people, when other parties should be financially responsible instead, or as well.*

- vi. Residents parking: no system documentation, setting out the management and administrative arrangements for maintaining and monitoring applications.*
- vii. Additional Payments: Lack of supporting documentation, including justification for the payment, evidence of appropriate sign off, regular review and the ongoing cost effectiveness of arrangements. We also found no regular review or any assessment of additional payments being made.*
- viii. Direct Payments (follow up): Although new procedures have been put in place, quarterly monitoring and annual audit checks by staff of Direct Payment accounts are not being done on time and there are backlogs with both. In addition gaps and inconsistencies between records were identified.*

*Note: an audit is a snapshot at one moment in time and therefore weaknesses may have been rectified and improvements made since the audit review. These audits will be subject to audit follow up during the next financial year.*

## 5.0 CORPORATE GOVERNANCE & RISK MANAGEMENT

### 5.1 Corporate Governance

- 5.1.1 Our internal audit work has confirmed that the Council has taken steps to improve governance, such as more robust budget monitoring, greater scrutiny of the financial viability of savings and improved performance management.
- 5.1.2 The performance framework is, in effect, a summary of the key internal processes and components through which the Council sets, delivers, monitors and reports on its priorities; as such it encompasses elements of strategy, finance, performance, people and risk management, and reporting and accountability. Last year we reported that only financial performance was reported to the Policy and Audit and Governance Committees. Performance is now reported quarterly to the Policy Committee summarising performance, against the success measures published in the Corporate Plan to monitor progress against the Council's six priorities.

- 5.1.3 The Team Reading programme was introduced by the Chief Executive to promote the Council's vision and its values, supported by a leadership behaviours programme and new HR policies and procedures. These are intuitive programmes which will help improve the governance arrangements of the Council.
- 5.1.4 A review of all of the Council's employment policies has been progressed throughout the year to ensure policies are clear, easy to understand, up-to-date and reviewed regularly. This programme of work is welcomed by Internal Audit, as good employment policies strengthen corporate governance and should support a culture based on trust, fairness and inclusion. They can also speed the decision-making process by ensuring that clear guidance is readily available. With the launch on the new intranet, accessibility of policies and procedures has been greatly improved. In addition a significant piece of work to reimplement and roll out the functionality of ITrent will improve governance.
- 5.1.5 There remain key pieces of work to be put in place to improve governance over information security and data protection, such as strengthening corporate oversight over data processing, ensuring compliance with the General Data Protection Regulation (GDPR) and how the Council stores data and adheres to retention policies.

## 5.2 Risk Management

- 5.2.1 The Corporate Management Team (CMT) manages and reviews the Council's strategic risks and reports were provided throughout the year providing status updates on corporate risks to the Audit & Governance Committee.
- 5.2.2 While risk management techniques are deployed, we are still of the view that risk management practice is not thoroughly embedded in all parts of the Council.
- 5.2.3 The risk registers help maintain transparency, in line with the principles of corporate governance, which in turn helps demonstrate that risk management is an integral and explicit part of the Council's overall management arrangements. Whilst the strategic risk register has been updated throughout the year, the directorate registers have not been maintained with as much vigour.
- 5.2.4 Internal Audit have used the Council's Corporate Risk Register to inform the audit planning process and at the same time can provide assurance that appropriate measures are being taken to manage the Council's key business risks.

## 6.0 ASSURANCES FROM OTHER SERVICES

### 6.2 External Auditor

6.2.1 At the time of writing, EY were still undertaking the audit of the 2016/17 accounts and were to commence their audit of the 2017/18 and 2018/19 accounts later on during the summer, once they have completed their NHS audits. We were therefore unable to take any assurances from their work, but have been aware for some while of the historic control deficiencies relating to the 2016/17 and 2017/18 accounts.

### 6.3 ICT Assurance

6.3.1 Public Services Network<sup>3</sup> (PSN) Certification has been achieved and the Council is certified until 18<sup>th</sup> September 2019. The Council has just undertaken independent PSN Vulnerability Testing for 2019/20 and will be addressing any Critical/High vulnerabilities identified.

6.3.2 The Council is also implementing continuous vulnerability scanning of its IT network, to move from once a year to monthly continuous assessments which will manage risks better.

## 7.0 Resource availability, allocation & jobs completed

7.1 For 2018/2019, the planned and actual resource availability is summarised in table A on the following page. This set out the requirement of 1024 planned audit days. The actual resource availability for the year for planned reviews was 938 days, with the difference due to vacancies.

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<sup>3</sup> The PSN is the government's high-performance network, which helps public sector organisations work together, reduce duplication and share resources

Table A Resource (Planned v Actual)	Planned Totals	Actual Totals	Gain (+) Against
<b>Resource Available</b>	<b>1514</b>	<b>1500</b>	<b>14</b>
<b>Non-audit time</b>			
Annual & other leave	184	196	12
Sickness	30	25	-5
Training (1)	48	50	2
Supervision & appraisal (2)	45	59	14
Management	29	58	29
Administration (3)	39	64	25
Other (4)	28	28	0
<b>Sub-Total:</b>	<b>403</b>	<b>480</b>	<b>77</b>
<b>Non Audit Related Work</b>			
Risk Management (5)	12	8	-4
Emergency Planning & Business Continuity (6)	12	1	-11
Corporate Investigations Team (7)	27	33	6
Insurance (8)	31	38	7
Elections (9)	5	2	-3
<b>Sub-Total:</b>	<b>87</b>	<b>82</b>	<b>-5</b>
<b>Audit time available:</b>	<b>1024</b>	<b>938</b>	<b>-58</b>
<b>Time Allocated to Audit Work</b>	<b>Planned Days</b>	<b>Actual Days</b>	<b>Variance Days</b>
Audit Reviews	776	762	-14
Other Assurance work	88	66	-22
Contingency	100	62	-38
Audit Planning & Reporting	60	48	-12
<b>Total</b>	<b>1024</b>	<b>938</b>	<b>-86</b>

- 1) Professional training support, external courses & seminars, internal courses/training.
- 2) One to ones, appraisals, staff supervision & audit sign off etc.
- 3) Review of internal audit, updating office procedures, IA web and intranet page etc.
- 4) Budgetary control, plan reconciliation, health & safety, quality control etc. team meetings
- 5) Facilitation of risk registers, training etc.
- 6) Assisting in emergencies, attending EP team meetings etc.
- 7) Management of the Corporate Investigations Team
- 8) Management of Insurance Team
- 9) Participation in election work

## 7.2 Performance of the Internal audit Service

7.2.1 The Public Sector Internal Audit Standards document the expected professional standards for internal audit in Local Government and are the applicable standards against which the quality of internal audit in local government is assessed. The Chief Auditor monitors compliance against the code, by self-assessment and/or external review.

7.2.2 Our performance during the year in relation to the performance indicators agreed for the internal audit service is shown in table B below: -

Table B: Key performance Indicators for internal audit

Key Performance Indicators		Actual			
		Target	2016/17	2017/18	2018/19
i.	Client Satisfaction	90% or above	91.4%	89%	85%
ii.	Production of final report within 2 weeks of receipt of management responses	90%	86%	86%	86%
iii.	Management responses received within 3 weeks of issue of draft report	90%	36%	29%	30%
iv.	Number of projects completed within agreed budgeted days relative to total number of projects undertaken	75%	39%	54%	49%
v.	Number of audit projects completed relative to those in the (revised) plan	80%	88%	71%	80%
vi.	Actual spending of controllable budget	-	98%	99.5%	99%
vii.	% Of working days lost to sickness	2.0%	0.81%	0.78%	1.83%

7.2.3 As with previous years, in some areas of the Council it has been hard to get audits started and doubly difficult to get timely replies and engagement with the draft reports. This in turn has led to audits being delayed, taking longer than originally planned, which has subsequently impacted upon internal audit performance statistic. Line iii in the above table is a good indicator of the delays in receiving a management response to the draft report, with only 30% of responses received within three weeks.



## 8.0 Counter Fraud Activity

- 8.1 Best practice advises that the results of corporate investigations, including the number and types of investigations undertaken should be reported annually. Progress on investigations is reported every quarter to the A & G Committee with a summary on the types of investigations in progress. Table D provides a high level overview of investigations undertaken compared to previous financial years. The counter fraud resource consisted of four experienced investigators for the 2018/19 financial year.
- 8.2 The Investigations Team deals with benefit, housing tenancy, blue badge and internal fraud etc. and has had a successful year, demonstrating the value that they bring to Reading Borough Council. This is apparent when we take into account that the team have identified approximately £2m in notional and cashable savings (see table C below for more detail). The deterrent of this activity should not be underestimated.
- 8.3 In recognition of their work they were highly commended for performance in the area of "Pursue" in Fighting Fraud and Corruption Locally.

Table C Annual Summary of Investigations	2016/17	2017/18	2018/19
<b>Housing tenancy Fraud</b>			
No. Housing Tenancy Referrals investigated	86	46	57
Properties Recovered	10	18	21
Estimated saving from Recoveries <sup>1</sup>	£150,000	£270,000	£1,953,000
Prosecutions Secured	0	3	3
Application under the Proceeds of Crime Act	1	0	0
Value of POCA/Compensation award	£21,000	£46,817	0
<b>Right to Buy Fraud</b>			
No. RTB applications investigated		11	35
No RTB applications refused as a result of investigation <sup>2</sup>		3	1
Estimated savings from preventing sale of property <sup>3</sup>		£195,000	£65,000
<b>Parking Fraud</b>			
Blue badge referrals	25	13	27
Blue Badges recovered	6	3	10
prosecutions secured	3	1	3
PCN's issued	4	3	6
estimated annual savings <sup>5</sup>	£3,450	£1,725	£5,750
<b>Residual Housing Benefit</b>			
Prosecutions	3	1	1
value of fraudulent overpayments identified	£1,518	£12,169	£34,360





Continued from previous page	2016/17	2017/18	2018/19
<b>Council Tax Support</b>			
No. CTAX Referrals investigated	112	90	296
Prosecutions	2	1	0
add pens	14	2	2
value of fraudulent overpayments identified	£19,468	£4,772	26,943
Value of add pens	£8,333	£2,386	£1,091
<b>Single Person Discount</b>			
value of fraudulent overpayments identified <sup>4</sup>			£195,247
<b>New Homes Bonus</b>			
Reduction in no. of long term empty properties			115
NHB reward <sup>6</sup>			£106,467
<b>Social Care</b>			
No. Social Care Referrals investigated	2	1	1
Financial value of cases	£1,500	£6,000	£62,000
<b>Internal Investigations</b>			
No. Internal Referrals	4	3	2
Number of cases investigated	1	3	2
Cases prosecuted	1	2	2
Financial value of cases	£43,000	£12,000	£14,598

## Notes:

- <sup>1</sup> Notional £93,000 (previously £18,000) per property recovered based on average four year fraudulent tenancy - this includes temporary accommodation for genuine applicants; legal costs to recover property; re-let cost; and rent foregone during the void period between tenancies. The notional savings multiplier is used by the Cabinet Office in their National Fraud Initiative report.
- <sup>2</sup> Social housing tenants who were not entitled to right to buy because of their status in the UK, or had multiple tenancies unlawfully.
- <sup>3</sup> Notional £65,000 (previously the exact figure was used). The notional saving for a Right to Buy (RTB) application that has been withdrawn is calculated by the Cabinet Office based on the region in which the property is based, the increases in the maximum RTB cap and the changes in average house prices. This method allows for benchmarking to be carried out.
- <sup>4</sup> Following a data matching exercise matching 21,918 address records against tracing and occupier lookup databases to determine the strength of residency for all individuals in a household within the borough, investigations officers are working with Council Tax reviewing the very high risk data matches and high risk matches. From the matches investigated to date £195,247 was identified for CTAX recovery.
- <sup>5</sup> £575 is the notional value applied by the Cabinet Office per blue badge cancelled to reflect lost parking and congestion charge revenue.
- <sup>6</sup> The New Homes Bonus (NHB) is a grant paid by central government to local councils to reflect and incentivise housing growth in their areas. The 'net reduction' of 115 long term empty properties earns the Council an NHB payment of £106,467 for 2020/21, part of the 4-year NHB reward of £425,870.

## ANNEX 1: Assurance Framework

Where appropriate each report we issue during the year is given an overall assurance opinion. The opinion stated in the audit report provides a brief objective assessment of the current and expected level of control over the subject audited. It is a statement of the audit view based on the terms of reference agreed at the start of the audit; it is not a statement of fact. The opinion should be independent of local circumstances but should draw attention to any such problems to present a rounded picture. The audit assurance opinion framework is as follows:

OPINION	EXPLANATION
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Substantial</p>  <p>GREEN</p>	<p><b>Substantial assurance</b> can be taken that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with <b>low impact on residual risk exposure</b>.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Reasonable</p>  <p>YELLOW</p>	<p>We can give <b>reasonable assurance</b> that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with <b>low to moderate impact on residual risk exposure until resolved</b>.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Limited</p>  <p>AMBER</p>	<p><b>Limited assurance</b> can be taken that arrangements to secure governance, risk management and internal control within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with <b>moderate impact on residual risk exposure until resolved</b>.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">No assurance</p>  <p>RED</p>	<p>There is <b>no assurance</b> that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Action is required to address the whole control framework in this area with <b>high impact on residual risk exposure until resolved</b>.</p>

## Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

PRIORITY	CURRENT RISK
<div style="background-color: red; color: black; padding: 5px; text-align: center;"><b>High</b></div>	<p>Poor key control design or widespread non-compliance with key controls. Plus a significant risk to achievement of a system objective or evidence present of material loss, error or misstatement.</p>
<div style="background-color: yellow; color: black; padding: 5px; text-align: center;"><b>Medium</b></div>	<p>Minor weakness in control design or limited non-compliance with established controls. Plus some risk to achievement of a system objective</p>
<div style="background-color: green; color: black; padding: 5px; text-align: center;"><b>Low</b></div>	<p>Potential to enhance system design to improve efficiency or effectiveness of controls. These are generally issues of good practice for management consideration</p>

- 3.1.1 The assurance opinion is based upon the initial risk factor allocated to the subject under review and the number and type of recommendations we make.
- 3.1.2 It is management's responsibility to ensure that effective controls operate within their service areas. However, we undertake follow up work to provide independent assurance that agreed recommendations arising from audit reviews are implemented in a timely manner. We intend to follow up those audits where we have given limited or 'no' assurance.

## ANNEX 2: Detailed analysis of internal audit reviews 2018/19

**SUBSTANTIAL ASSURANCE** - can be taken that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with **low impact on residual risk** exposure

Title	Start	Draft	Final	Recs		
				H	M	L
Business Rates (NNDR)	Feb-19	May-19		0	0	5
PPE Journals	Jun-18	Jun-18	Jun-18	0	0	0
Journals 18/19 Q1	Jul-18	Jul-18	Jul-18	0	0	0
Journals 18/19 Q2	Oct-18	Oct-18	Oct-18	0	0	0
Revenue Budget Setting	Jul-18	Oct-18	Nov-18	0	3	1
Budgetary Control & Savings	Nov-18	Jan-19	Mar-19	0	0	1
Hugh Faringdon Secondary School	Oct-18	Oct-18	Nov-18	0	0	3
Redlands Primary School	Nov-18	Nov-18	Dec-18	0	0	2
The Hill Primary School	Sep-18	Oct-18	Nov-18	0	3	5

**REASONABLE ASSURANCE-** We can give **reasonable assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with **low to moderate impact on residual risk** expose until resolved.

Title	Start	Draft	Final	Recs		
				H	M	L
Bank and Cash Reconciliations	Dec-18	Jan-19	Feb-19	3	3	0
Payroll	Feb-19	April 19		1	0	2
Employee Gifts & Hospitality & Declarations of Interest	Sep-18	Nov-18	Mar-19	0	4	2
Payment Card Industry Data Security Standard	Jun-18	Aug-18	Nov-18	0	3	0
Network Infrastructure Security	Mar-18	Aug-18	Oct-18	0	4	2
Homes for Reading	Aug-18	Mar-19	Apr-19	0	7	3
South Reading Leisure Centre	Jul-18	Aug-18	Sep-18	0	1	0
Right to Buy (follow up)	Apr-18	Jun-18	Jul-18	0	1	3
Christ the King Catholic Primary School*	Jan-19	Feb-19	Mar-19	0	2	0
St Michael's Primary School*	Mar-19	Mar-19	Apr-19	0	2	5
Whitley Park Primary School	Jun-18	Jul-18	Jul-18	0	3	3
Norcot Nursery School	Jun-18	Jul-18	Jul-18	0	3	5
New Bridge Nursery School*	Jun-18	Jul-18	Nov-18	0	1	1

\*Results of audit reported directly to BfFC

**LIMITED ASSURANCE** - can be taken that arrangements to secure governance, risk management and internal control within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with **moderate impact on residual risk** exposure until resolved.

Title	Start	Draft	Final	Recs		
				H	M	L
Direct Payments (Follow up)	Dec-18	Mar-19	Apr-19	1	5	1
Continuing Health Care (CHS)	May-18	Oct-18	Nov-18	2	5	1
Delayed Transfer of Care	Apr-18	Aug-18	Nov-18	1	4	1
Accounts Receivable	Oct-18	Dec-18	Jan-19	1	6	1
Accounts Payable	Dec-18	Feb-19	Apr-19	1	2	1
Additional Payments	Feb-18	Jul-18	Aug-18	1	3	1
Data Storage	Jun-18	Dec-18	Apr-19	1	3	0
Residents Parking	Jul-18	Oct-18	Dec-18	3	5	1

Other reviews completed, which didn't require an assurance opinion:

Title	Start	Draft	Final	Recs		
				H	M	L
Troubled families Grant Sign Off Q1	Sep-18	Sep-18	Sep-18	0	0	0
Troubled families Grant Sign Off Q3	Dec-18	Dec-19	Dec-18	0	0	0
Troubled families Grant Sign Off Q4	Feb-19	Feb-19	Feb-19	0	0	0
Local Transport Plan Capital Settlement (Grant Certification)	Aug-18	Oct-18	Nov-18	0	0	1
Bus Subsidy Grant	Aug-18	Oct-18	Nov-18	0	0	1
Stronger Together Partnership	Sep-18	Oct-18	Oct-18	0	0	0
Commercial Leases (Stepping Stones)	May-18	Jul-18	Dec-18	2	0	0
Spoil Certificate and Counterfoils	Oct-18	Oct-18	Oct-18	0	0	0

Planned audits carried over to 2019/2020 for completion:

Title	Start	Draft	Final	Recs		
				H	M	L
Public Health						
Entitlement & Assessment/HB Subsidy	Feb 19	Jun 19				
Foster Care*	Mar 19	May 19	May 19	1	5	1
Looked After Children*	Mar 19	April 19	May 19	2	3	0
Child Exploitation*	Jan 19	April 19	May 19	1	5	1
Commercialisation	Oct 18	Jan 19				
Sec 106 Agreements	Mar 19	April 19				
Phoenix College*	Feb-19	Mar-19	May 19	0	0	0
Corporate Buildings H&S Statutory Compliance Regimes	Feb 19	May 19				

\*the results of these audit reviews will be reported directly to BfFC



READING BOROUGH COUNCIL  
EXECUTIVE DIRECTOR OF RESOURCES

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	23 July 2019		
TITLE:	INTERNAL AUDIT QUARTERLY PROGRESS REPORT		
LEAD COUNCILLOR:	COUNCILLOR EMBERSON	PORTFOLIO:	CORPORATE AND CONSUMER SERVICES
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
JOB TITLE:	CHIEF AUDITOR	E-MAIL:	<a href="mailto:Paul.Harrington@reading.gov.uk">Paul.Harrington@reading.gov.uk</a>

## 1. PURPOSE OF THE REPORT

1.1 This report provides the Audit & Governance Committee with an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in April 2019.

1.2 The report:

- Provides assurance, commensurate with the control environment evidenced by audits conducted in the last quarter.
- Advises on significant issues where controls need to improve to effectively manage risks.
- Tracks progress on the response to audit reports and the implementation of agreed audit recommendations.
- Where limited opinions have been given, the full internal audit report is appended to this report.

## 2. RECOMMENDATION

2.1 The Audit & Governance Committee is requested to consider the report.

### 3. ASSURANCE FRAMEWORK

3.1 Each Internal Audit report provides a clear audit assurance opinion. The opinion provides an objective assessment of the current and expected level of control over the subject audited. It is a statement of the audit view based on the work undertaken in relation to the terms of reference agreed at the start of the audit; it is not a statement of fact. The audit assurance opinion framework is as follows:

Opinion	Explanation
No Assurance	Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives.
Limited	Significant weakness (es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk.
Reasonable	Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified.
Substantial	A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified.

3.2 The assurance opinion is based upon the initial risk factor allocated to the subject under review and the number and type of recommendations we make.

3.3 It is management's responsibility to ensure that effective controls operate within their service areas. Follow up work is undertaken on audits providing **limited** or '**no**' assurance to ensure that agreed recommendations have been implemented in a timely manner.

## 4.0 HIGH LEVEL SUMMARY OF AUDIT FINDINGS

		Recs			Assurance
4.1	Payroll:	1	1	2	Reasonable

4.1.1 Overall the audit found that there is an adequate control framework in place governing the payroll system and that it is well administered and managed. A series of tests were carried out to assess whether the controls were operating efficiently and effectively as intended and no significant issues were identified.

4.1.2 One specific weakness was noted in relation to the reconciliation process between iTrent and Oracle Fusion, specifically the prompt posting of adjustments. This is an important gap in the overall Payroll control framework and hence a Priority 1 recommendation was made. In particular action needs to be taken to clarify the discrete roles of both the Finance and the Payroll teams to ensure that the reconciliation tasks are completed in a timely fashion and are evidenced fully and accurately. Moreover the documentation of the reconciliation process(es) is incomplete and needs to be brought up to date.

4.1.3 Sample testing showed that payments were properly evidenced, authorised and appropriately paid.

4.1.4 A suite of standard exception reports is available from the system and are used as part of the monthly process. A sample of reports were reviewed and found to have been regularly produced.

4.1.5 The results of sample testing suggest that there are issues with staff completing and submitting their expenses claims promptly as delays of up to 70 working days were identified.

		Recs			Assurance
4.2	Non Domestic Rates:	0	0	5	Substantial

4.2.1 There is generally a sound control environment in the administration of non-domestic rates. An accurate property database is maintained and reconciled weekly against the Valuation Office Agency (VOA) records. Individual accounts were found to be appropriately calculated with system parameters updated and checked to ensure the billing arrangements are in accordance with government notifications.

4.2.2 Advisory recommendations were made to further enhance the control environment.

		Recs			Assurance
4.3	Section 106 Follow up audit:	0	1	0	Reasonable

4.3.1 This audit sought to evaluate progress made since the last review in July 2017. We can report that the monitoring of section 106 obligations, along with governance procedures has improved and all historic audit recommendations have now been addressed. One further recommendation was made to ensure written procedures are kept up to date and reflect the process to be followed in the event of a repayment of an obligation to a developer and the frequency with which reconciliations must be performed.

		Recs			Assurance
4.4	Corporate Buildings H&S Statutory Compliance Regimes	0	6	0	Reasonable

4.4.1 The Health and Safety at Work Act 1974 places legal duties on employers to protect employees through the provision of a safe working environment. Statutory compliance is a legal requirement and normally the responsibility lies with a nominated person or team within the compliant organisation. Regular maintenance plays a vital part in maintaining health and safety standards that are conducive to creating working environments that are safe and comfortable for employees and occupants. It can be challenging keeping up to date with the ever-evolving legislation as well as ensuring approved procedures, systems and equipment are kept compliant.

4.4.2 Whilst detailed policies and procedures are set out at corporate level, day to day responsibility for implementation is delegated to service managers in individual properties, who may not always appreciate the importance of ensuring regular checks and control measures are carried out and recorded.

4.4.3 Demonstrating that staff have understood and fulfilled their duties, is difficult to evidence. Therefore the Council is potentially faced with the situation and subsequent risk, of not knowing the level of compliance across its property portfolio.

4.4.4 A governance structure is in place, overseen by the Corporate Risk Group (CRG), which was established to oversee property maintenance and statutory health & safety compliance. However, membership needs to be strengthened, as attendance on the group is sometimes poor and it lacks the appropriate profile within the organisation. Neither are there any terms of reference for the group or a process to illustrate how non-compliance issues are escalated.

4.4.5 There is a need for all records on condition surveys and statutory compliance inspections to be held in one place, as records are currently held on a number of different systems, in different formats and are not always readily accessible for audits and reports. There is also a need to clarify responsibility for buildings leased by RBC to ensure that statutory building compliance regimes are properly covered.

4.4.6 Health and Safety carry out independent audits on a priority (risk) basis to substantiate and determine the level of statutory compliance inspections across the Council's property estate. Health and Safety recorded 152 properties, of which RBC is responsible for ensuring compliance with statutory health and safety legislation. 59 properties (39%) were inspected for compliance in 2018/2019. We are satisfied that Health and Safety have a standard audit programme to measure and report upon compliance. The Health & Safety team's audit plan records the council's compliance responsibility, risk, date and scope of inspection and findings.

#### 4.5 Journal Testing

4.5.1 At the beginning of the financial year a two part review of a sample of journals was carried out, focussing on the first six months of financial year 2017-18 and the year end sundry debtors and creditors journals for financial year 2018-19.

4.5.2 We selected a sample of 36 journals which were processed in the first six months of the 2017-18 financial year and found 11 (30%) to be satisfactory with respect to evidence to support the journal. However, with respect to evidence of separation of duties between creation and approval the majority had been approved by the creator. Thus no independent authorisation had been taken place. Although, this was not necessarily surprising, as we have reported that the journal control deficiencies identified in 2016/2017, extend through the first six months of 2017/2018, at a minimum. There was no particular spread by area or individual in respect of the journal creation which would indicate that the result was an indication that across the board for this period evidence for journal creation was poor. On a crude projection of how many journals would not pass based on the sample (where one journal would be representative for all those type of journals posted) it would show the following:

- Fail 299 - 44%
- Partial 85 - 13%
- Succeed 293 - 43%

4.5.3 On a positive note, transaction samples reviewed for journals that featured accruals for 2018-19 year end, did not reveal any errors. This supports our testing of Journals processed in 2018/2019, where we have reported considerable improvement in control.

## 5.0 AUDIT REVIEWS 2019/2020

5.1 The table below details those audit reviews in progress and the reviews planned for the next quarter. Any amendments to the plan to reflect new and emerging issues or changes in timing have been highlighted.

Audit reviews carried over from 2018/2019

Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Entitlement & Assessment	●				Jan-19	Jul-19					
Section 106 Agreements (follow up)	●				Mar-19	Apr-19	May-19	0	1	0	Reasonable
Business Rates	●				Feb-19	Apr-19	May-19	0	0	5	Substantial
Payroll	●				Feb-19	Jun-19	Jun-19	1	1	2	Reasonable
Corporate Buildings H&S Statutory Compliance Regimes	●				Feb-19	May-19	Jul-19	0	6	6	Reasonable

Audit reviews scheduled for 2019/2020

Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Car Parks (off street)	●										
VAT*	●				Jun-19						
Eligibility, Risk and Review Group	●				Jun-19						
Parks*	●				Jun-19						
General Ledger (journal testing Debtors/Creditors)*	●				Apr-19	Jun-19	Jun-19	0	0	0	n/a
Food Hygiene Inspections	●				May-19						
Cemeteries & Crematorium	●				May-19	Jun-19					
Pre-employment verification (DBS)	●				Jun-19						
Freedom of Information*	●				Jun-19	Jul-19					
Care & Support Charges	●				May-19						

\*new addition to the audit plan

Audit Title	Timing				Start Date	Draft Report	Final Report	Res			Assurance
	Q1	Q2	Q3	Q4				P1	P2	P3	
Rent Accounting		●									
Oracle Fusion Cost Centre Manager Data Analysis		●									
Cash collection - web payments		●									
Secure communications		●									
Purchasing cards		●									
Travel and Subsistence (inc mileage)		●									
Learning & Development and Mental Health Placements		●									
Special Education Needs and Disabilities		●									
Local Transport Plan Capital Settlement (Grant Certification)		●									
Bus Subsidy Grant		●									
General Ledger (Journal Testing)		●									
Contract Management		●									
Residents Parking (follow up)			●								
Bank & Cash Rec inc control account reconciliations			●								
Accounts Payable			●								
Reading Buses			●								
Payment Controls in Children's Social Work			●								
Investment Properties			●								
Continuing Health Care (CHC)- Follow up review			●								
Additional Payments (Follow Up)			●								
Delayed Transfer of Care - Follow up review				●							
CT Support				●							
Data Storage (follow up)				●							
Sundry Debtors				●							
Business Rates				●							
Client Contributions Adult Care & Deferred Income				●							
Commissioning & Contract Management (Adults)				●							
General Ledger (Journal Testing)				●							
Commercialisation				●							

## 6.0 INVESTIGATIONS (APRIL - JUNE 19)

### 6.1 Housing Benefit and Council Tax Support Investigations

6.1.1 The team have been developing a joint working process for benefit related investigations with central Government investigators at the Department for Work and Pensions (DWP). The process went live in May 2019. To date five joint investigations are in progress, all related to potential Council Tax fraud. No outcomes in the area have been recorded to date.

### 6.2 Single Person Discount

6.2.1 Following a second data matching exercise, matching over 22,000 address records against tracing and occupier databases, investigations officers are working with Council Tax to review the matches. To date £25,000 has been identified for CTAX recovery.

### 6.3 Housing Tenancy Investigations

6.3.1 Since 1st April 2019 there have been 21 cases of alleged tenancy fraud, 18 cases are still ongoing. Two properties have been returned to stock to date. The notional saving is £186,000. Using the notional savings multiplier used by the Cabinet Office in their National Fraud Initiative report.

### 6.4 Right To Buy (RTB)

6.4.1 Since 1 April 2019 the team have been asked to check 19 RTB applications and as a result of investigations, two applications did not proceed any further and one application was refused. The property transaction in both instances would have been the maximum of £80,900. We have added to this the income from rent on both properties, which if sold would have been a loss to RBC the joint income was £11,871

### 6.5 Internal Investigations

6.5.1 No referrals have been received in quarter 1.

### 6.6 Social Care Fraud & Investigations

6.6.1 The team are working with BfFC on a complex referral which was received in May 2019. The investigation is ongoing.



## **6.7 Disabled Persons Parking Badges (Blue Badges)**

6.7.1 Since the 1<sup>st</sup> April 2019 the team have received 9 referrals with regards to the potential misuse of a Blue Badge. Of these, 2 cases are currently with RBC criminal lawyers pending charges re the misuse of a Blue Badges, 2 cases have been dealt with by way of formal letter re continued use of the Blue Badge and 5 cases are subject to ongoing investigations.

## **7. CONTRIBUTION TO STRATEGIC AIMS**

7.1 Audit Services aims to assist in the achievement of the strategic aims of the Council set out in the Corporate Plan by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In particular audit work is likely to contribute to the priority of remaining financially sustainable to deliver our service priorities.

## **8. COMMUNITY ENGAGEMENT AND INFORMATION**

8.1 N/A

## **9. LEGAL IMPLICATIONS**

9.1.1 Legislation dictates the objectives and purpose of the internal audit service the requirement for an internal audit function is either explicit or implied in the relevant local government legislation.

9.1.2 Section 151 of the Local Government act 1972 requires every local authority to “make arrangements for the proper administration of its financial affairs” and to ensure that one of the officers has responsibility for the administration of those affairs.

9.1.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations in that authorities must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices”.

## **10. FINANCIAL IMPLICATIONS**

10.1 N/A

## **11. BACKGROUND PAPERS**

11.1 N/A

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READING BOROUGH COUNCIL  
DIRECTOR OF CORPORATE RESOURCES

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	23 <sup>rd</sup> Jul 2019		
TITLE:	STRATEGIC RISK REGISTER Q1		
LEAD COUNCILLOR:	COUNCILLOR EMBERSON	PORTFOLIO:	CORPORATE AND CONSUMER SERVICES
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	JACKIE YATES	TEL:	9374710
JOB TITLE:	EXECUTIVE DIRECTOR OF RESOURCES	E-MAIL:	<a href="mailto:jackie.yates@reading.gov.uk">jackie.yates@reading.gov.uk</a>

## 1. PURPOSE OF REPORT

- 1.1 This report outlines the Q1 19/20 update of the Strategic Risk Register.
- 1.2 The Register is presented to the Council's Audit & Governance Committee a minimum of six monthly or quarterly in the case of any risks where the position has worsened or for residual red risks where the Audit & Governance Committee shows a particular interest. It was last presented to the Committee in Jan 2019.
- 1.3 The following documents are appended:  
  
Appendix 1 - the Council's Corporate (Strategic) Risk Register.

## 2. RECOMMENDED ACTION

- 2.1 The committee are requested to consider the Council's strategic risks as of June 19 (end of Q1).

## 3. KEY ISSUES

- 3.1 Risk management is a key part of corporate governance. Good risk management will help identify and deal with key Strategic risks facing the Council in the pursuit of its goals and is a key part of good management, not simply a compliance exercise. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. They consist of an ongoing process designed to identify and address significant risks involved in achieving the Council's outcomes.

- 3.2 The Strategic Risk Register has been developed to provide a concise, focused and high level overview of Strategic risks that can be easily communicated to all staff, councillors and stakeholders (e.g. Council's Insurers). It should, however, always be supplemented by the more detailed directorate/service/project risk registers.
- 3.3 Although guidance is provided in relation to the scoring of risks, with a view to providing as much consistency as possible, it still remains very much a subjective process. The primary aim of the Strategic Risk Register is to identify those key vulnerabilities that CMT consider need to be closely monitored in the forthcoming months and, in some instances, years ahead. In many cases this will be because the risk is relatively new and, whilst being effectively managed, the associated control framework is yet to be fully defined and embedded. In such circumstances it follows that not only will the potential impact be large, but the risk of likelihood of occurrence could also be increased. Furthermore, it is possible that the likelihood can be influenced by events outside of the Council's control e.g. the economic climate and its impact on financial planning, or severe weather etc.
- 3.4 Risk appetite was introduced to our risk register in 2018. This is consistent with the Institute of Risk Management which advises that risk appetite should be identified for each risk. *Risk appetite is the amount of risk that an organisation is willing to seek or accepts in order to meet its long term objectives.*
- 3.5 Given the revised format identifies risk appetite for each individual risk, the previous colour coding of red, amber and green based on a single assessment of risk tolerance would be confusing and hence the analysis of red, amber and green will now be based on the extent of the gap between the current residual risk and the risk appetite.
- 3.6 In order to focus senior management and Member attention on areas of greatest risk, the Register should include only the key current risks that have not been mitigated down to the risk appetite level. Hence it is proposed that where risks have been rated as green for 2 or more consecutive quarters they should be removed from the Register. These can be re-instated should the risk rise again.

#### 4. CONTRIBUTION TO STRATEGIC AIMS

- 4.1 Regular review of the Strategic Risk Register is an integral part of effective risk management arrangements and corporate governance. Identifying risk appetite enables the Council to clarify the extent of risk mitigation required in order to achieve its strategic aims.

#### 5. COMMUNITY ENGAGEMENT AND INFORMATION

- 5.1 N/A

#### 6. LEGAL IMPLICATIONS

6.1 There are no specific legal implications arising from the recommendations in this report"

**7. FINANCIAL IMPLICATIONS**

7.1 N/A

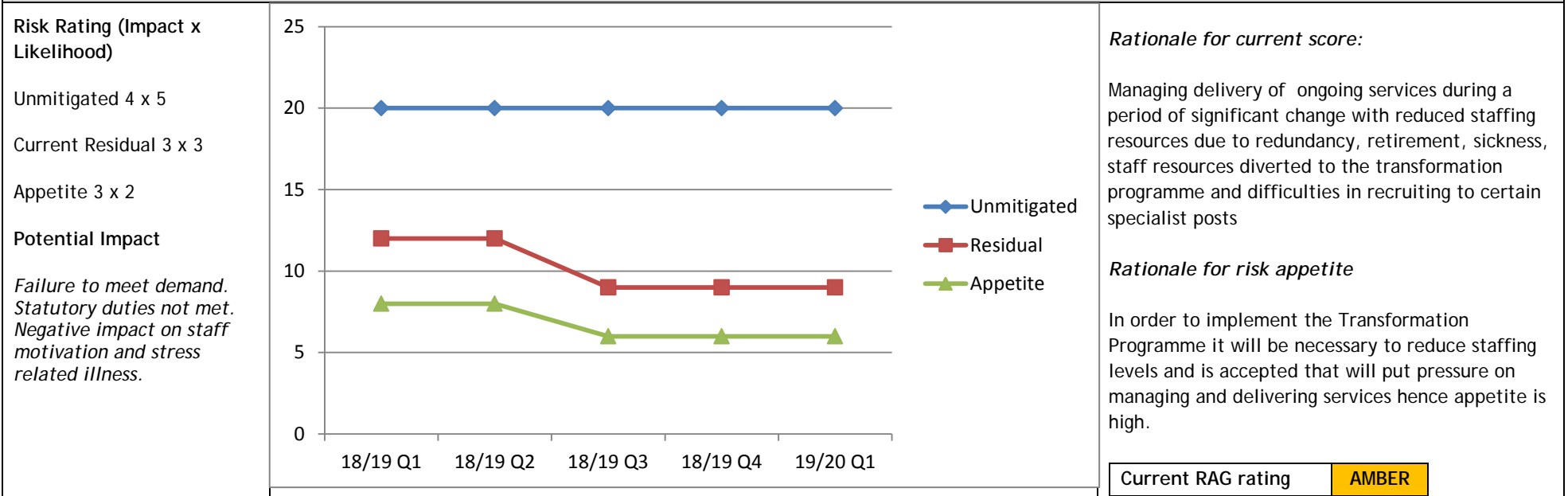
**8. BACKGROUND PAPERS**

8.1 Appendix 1 - the Council's Corporate (Strategic) Risk Register.

<p><b>Risk 1: The council does not create and deliver a sustainable Medium Term Financial Plan and/or achieve a balanced budget.</b></p>		<p><b>Risk Owner: Head of Finance</b></p>																										
<p><b>Corporate Priority: Ensuring the Council is fit for the future</b></p>																												
<p><b>Risk Rating (Impact x Likelihood)</b></p> <p>Unmitigated 5 x 5</p> <p>Current Residual 4 x 1</p> <p>Appetite 4 x 1</p> <p><b>Potential Impact</b></p> <p><i>Strategic objectives and statutory duties not met. Council unable to set legal budget. Service or services failure</i></p>	<table border="1"> <caption>Risk Rating Data</caption> <thead> <tr> <th>Period</th> <th>Unmitigated</th> <th>Residual</th> <th>Appetite</th> </tr> </thead> <tbody> <tr> <td>18/19 Q1</td> <td>25</td> <td>16</td> <td>4</td> </tr> <tr> <td>18/19 Q2</td> <td>25</td> <td>16</td> <td>4</td> </tr> <tr> <td>18/19 Q3</td> <td>25</td> <td>12</td> <td>4</td> </tr> <tr> <td>18/19 Q4</td> <td>25</td> <td>4</td> <td>4</td> </tr> <tr> <td>19/20 Q1</td> <td>25</td> <td>4</td> <td>4</td> </tr> </tbody> </table>		Period	Unmitigated	Residual	Appetite	18/19 Q1	25	16	4	18/19 Q2	25	16	4	18/19 Q3	25	12	4	18/19 Q4	25	4	4	19/20 Q1	25	4	4	<p><b>Rationale for current score:</b></p> <p>The £40m of savings over 3 years will require robust management to deliver. Particularly there is a need to take early and robust action on longer term initiatives to ensure that the Council remains a going concern. The General Balances will need to be improved and a reserve is created to manage future years' volatility.</p> <p><b>Rationale for risk appetite</b></p> <p>Achieving a sustainable financial position is essential in order to be a going concern and deliver priorities. Careful planning is essential and the risk appetite is low.</p>	
	Period	Unmitigated	Residual	Appetite																								
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18/19 Q4	25	4	4																									
19/20 Q1	25	4	4																									
		<p><b>Current RAG rating</b> <span style="background-color: green; color: white; padding: 2px;">GREEN</span></p>																										
<p><b>Current Actions (What we are currently doing about the risk - Causes Unmitigated Score to reduce to Residual)</b></p> <ul style="list-style-type: none"> <li>• MTFS for the period 2019-2022 has been approved by Council</li> <li>• Members have agreed a 3 year balanced budget</li> <li>• Robust monitoring arrangements are in place re delivery of savings and tracking of budget pressures</li> <li>• Significant savings are being managed by 8 Corporate Programme Boards each with a CMT sponsor</li> <li>• Delivery Fund allocations have been aligned with Programme Boards on gateways to access funding which are managed via the Board structure. Spend is agreed where appropriate</li> <li>• A risk fund against established difficult to meet savings</li> <li>• Planning for the annual refresh of the MTFP in place.</li> <li>• CMT has commissioned a hard review of budget monitoring at the end of the first quarter of the year.</li> <li>• Programme of Fundamental Service Reviews are about to be implemented to identify further opportunities for 'savings'.</li> </ul>		<p><b>Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities</b></p> <table border="1"> <thead> <tr> <th>Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities</th> <th>Officer (s) responsible</th> <th>Target date</th> </tr> </thead> <tbody> <tr> <td>The MTFS takes account of actual and emerging pressures with an appropriate contingency. Robust monitoring and early delivery of savings is now required to give confidence that the MTFS is deliverable.</td> <td>Head of Finance/ CMT</td> <td>Ongoing</td> </tr> <tr> <td>Budget monitoring incorporates the savings delivery plan as a separate report, with mitigation plans to be implemented for those savings at risk (Red/Amber RAG status)</td> <td>CMT</td> <td>Ongoing</td> </tr> <tr> <td>Assistant directors instructed to fully mitigate any unmet savings</td> <td>Assistant Director for Corporate and Customer Services</td> <td>End Jul 19</td> </tr> </tbody> </table>		Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer (s) responsible	Target date	The MTFS takes account of actual and emerging pressures with an appropriate contingency. Robust monitoring and early delivery of savings is now required to give confidence that the MTFS is deliverable.	Head of Finance/ CMT	Ongoing	Budget monitoring incorporates the savings delivery plan as a separate report, with mitigation plans to be implemented for those savings at risk (Red/Amber RAG status)	CMT	Ongoing	Assistant directors instructed to fully mitigate any unmet savings	Assistant Director for Corporate and Customer Services	End Jul 19													
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**Risk 2: Insufficient or lack of capable staff resources to deliver our services in an effective and efficient manner** Risk Owner: Assistant Director of HR & Organisational Development

Corporate Priority: *Ensuring the Council is fit for the future*



**Current Actions**(What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual)

- HR Business Partnering approach introduced to support and assist managers with effective workforce planning
- Access to pool of appropriately qualified temporary staff via agency contract
- Team Reading Programme set up in October 2018 to support the delivery of the Organisation Development Strategy which aims to achieve a highly skilled and motivated workforce. Programme governance in place through monthly boards reporting progress to CMT.
- Resourcing team established from 1 January 2019 to improve the approach and success of permanent and all other types of recruitment. Time to fill (advert to start date) has reduced from around 100 days to an average of 67 days. Success rate of recruitment has increased from 50% to 75%.
- Staff Survey run in April/May 2019 which provides valuable insight into how staff feel about the Council as an employer and an opportunity to build on and maintain positive results and address areas for improvement. Action Plans will be put in place by 31 July 2019 and progress will be monitored by the Team Reading Programme Board
- Significant drive to fill ADs underway and almost complete Assest and regeneration Commison and quality in ASC proving difficult)

Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer responsible	Target date
Update HR policies and procedures	Assistant Director of HR and OD	December 19
Staff Survey action plans to be developed following release of results in June 2019, so that action can be taken to address any areas of concern and to build on areas where results are positive	Assistant Director of HR and OD	July 19
Reduce agency spend	CMT	Ongoing
Improved HR management information to be made available to managers following roll out of iTrent self service modules. This will enable more effective monitoring of turnover, absence trends etc so that any areas of concern can be identified and acted upon quickly	Assistant Director of HR and OD	March 2020

**Risk 3: Information created, accessed, handled, stored, protected and destroyed by the Council and its service areas is not managed in compliance with legislation or local policies. Council services do not fully understand or manage the risks such non-compliance involves therefore not making informed, risk based decisions.**

**Risk Owners:** Head of Legal/ AD for Digital Transformation

**Corporate Priority:** *Ensuring the Council is fit for the future*

**Risk Rating (Impact x Likelihood)**

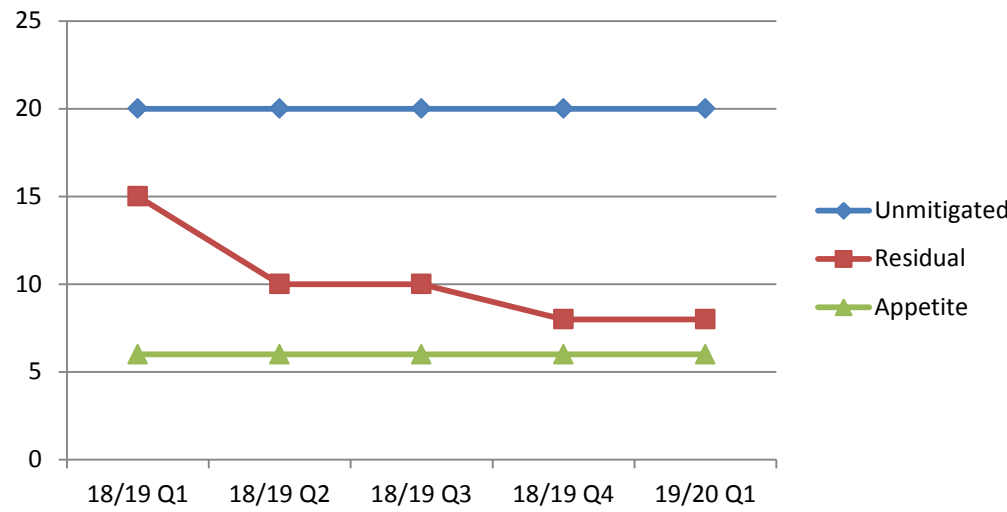
Unmitigated 5 x 4

Current Residual 4 x 2

Appetite 3 x 2

**Potential Impact**

*Fines/penalties, reputation damage, service failure.*



**Rationale for current score:**

The likelihood has reduced slightly following staff awareness training, however fines are increasing, hence potential impact remains high.

**Rationale for risk appetite**

In addition to the financial risk, financial penalties are now very high, hence the Council will seek to minimise the risk of these being incurred.

Current RAG rating **AMBER**

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**Current Actions**(What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual )

- Ongoing corporate training programme for data protection, raising awareness with staff groups of the need to handle personal data securely and properly. Data Protection Training is mandatory for all staff.
- GDPR Project team established and working towards GDPR compliance so as to avoid large penalties and fines.
- Data Protection Officer in place following staff resignation.
- GDPR e-learning module has been rolled out to staff and made mandatory for staff to complete. Face to Face Data Protection refresher training is available for staff as and when needed. GDPR briefing sessions were also held for staff by the GDPR team and each session was fully attended by staff. These sessions outlined the changes in legislation and what was required for compliance.
- Data Protection policy and Breach Management policy completed and on the Information Governance Pod for staff to access. Subject Access Request guide updated also. These will be reviewed annually. Monitoring awareness will be ongoing.
- Privacy Notices have been updated for each service area and made available to service users. This will be under constant review and updated should there be any change as to how personal is processed.
- Teams have completed DPIA's documenting what personal they are processing. These are to be reviewed annually.
- The Council now has retention schedules for each directorate. All

Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer responsible	Target date
Need to test application of training by officers and monitor both the effectiveness and that the right staff handling sensitive data is prioritised.	CMT	Ongoing
GDPR introduces increased fines and data subjects' legal right to compensation. The latter is likely to create a spawn of litigation that will be very costly and labour intensive to manage, plus reputational damage	CMT	Ongoing



retention schedules have been updated and will be reviewed to ensure they are compliant with any future updates. The retention schedules are available to all staff and all directorates are expected to follow them to ensure compliance.

- I Trent rolled out to all staff with expectation of self-serve culture to keep own personal data up to date.

**Risk 4: The Council does not follow its own governance procedures leading to failure to deliver services and/or value for money and/or it can be challenged through a legal process** **Risk Owners:** Assistant Director of Legal/ Director of Resources

**Corporate Priority:** *Ensuring the Council is fit for the future, Securing the economic success of Reading. Improving access to decent housing to meet local needs. Protecting and enhancing the lives of vulnerable adults and children, Keeping Reading's environment clean, green and safe. Promoting great education, leisure and cultural opportunities for people in Reading*

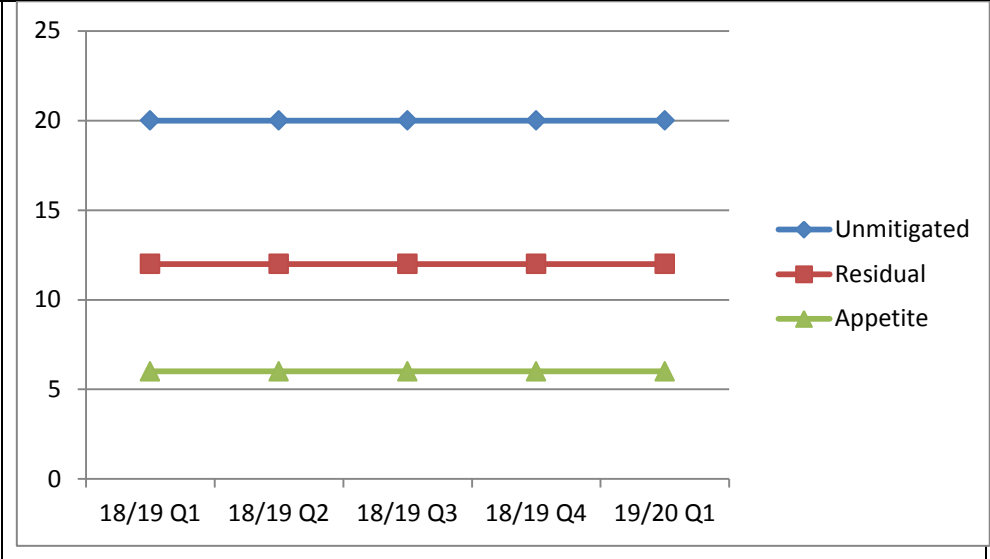
**Risk Rating (Impact x Likelihood)**

Unmitigated 5 x 4

Current Residual 4 x 3

Appetite 3 x 2

**Potential Impact**  
Breach of governance procedures could lead to adverse Ombudsman, Ofsted, External Audit, Care Quality Commission opinions and/or Legal challenge from those who interact with the Council



**Rationale for current score:**

While controls are in place, they are not always being followed. Processes are improving as are training and policies, but the impact of this is not yet proven. The Council's AGS suggests progress still needs to be made to reduce the residual risk.

**Rationale for risk appetite**

A Council should be a model of propriety and control to ensure confidence in its handling of public assets. Hence the likelihood of non-compliance should be at a minimal level. Good governance underpins all work to achieve the Council's targets

**Current RAG rating** RED

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**Current Actions (What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual)**

- Follow up on Audit Recommendations to ensure that they are all dealt with fully so that systems, processes and compliance are improved. Recommendation tracker presented to A&G along with limited assurance audit reports in full.
- The induction programme for new members of staff includes guidance to certain key governance policies (including the Code of Conduct);
- Staff code of conduct issued with contracts of employment for all staff
- Strategic risk register to be kept up to date and reviewed promptly.
- Roll out of net consent for policy management; recently used for GDPR training.
- Risk management training completed or planned for Heads of Service & Directors 2019
- Budget managers trained in Nov 17
- Some HR policies already agreed such as sickness, disciplinary
- Ethics statement being refreshed
- Control of payments to employees better controlled through I Trent roll out

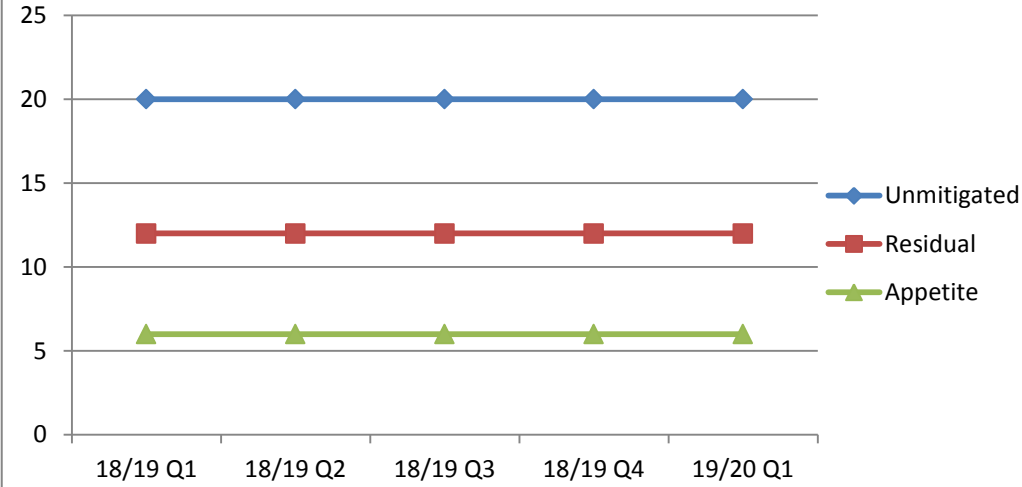
Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer responsible	Target date
A new budget management training module is in progress of being prepared and will be rolled out across the organisation in the Autumn	Assistant Director of Finance	Q4 2020
Continue to use the Directorate Performance Steering Groups to drive compliance	Assistant Director of Finance	Continuous
Financial Regulations are currently being updated and will be rolled out as soon as approved	Assistant Director of Finance/ Director of Resources	Q2 19/20
HR policies and procedures are being reviewed and updated	Assistant Director of HR	Mar 2020
<ul style="list-style-type: none"> <li>Code of Conduct to be relaunched.</li> </ul>	Assistant Director of HR	Mar 2020
<ul style="list-style-type: none"> <li>Refreshed anti-fraud &amp; corruption and anti-money laundering policy approved by policy committee in April 2018. To be launched to staff by Q4 19/20</li> </ul>	Chief Auditor	Q4 19/20

	<ul style="list-style-type: none"><li>• Roll out values and behaviours &amp; ethics framework</li></ul>	Assistant Direct of HR (behaviours) Ethics (Chief Exec)	Q4 19/20
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**Risk 5: Failure of major contract causes financial, service delivery, legal and H&S issues which directly impact the Council - (Care Homes, Home Care, ICT, OOH Call Handling, EDS etc)**  
**Risk Owners:** Assistant Director Commissioning, Quality and Wellbeing (DACHS)

**Corporate Priority:** *Ensuring the Council is fit for the future, Securing the economic success of Reading. Protecting and enhancing the lives of vulnerable adults and children.*

**Risk Rating (Impact x Likelihood)**  
 Unmitigated 5 x 4  
 Current Residual 4 x 3  
 Appetite 3 x 2  
**Potential Impact**  
*Disruption to services. Failure to meet statutory duties*



**Rationale for current score:**  
 Increasing pressure on children's/adults social care due to changing demographics.

**Rationale for risk appetite**  
 Tolerance is relatively low due to knock on effect on service delivery

**Current RAG rating** RED

**Current Actions** (What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual)

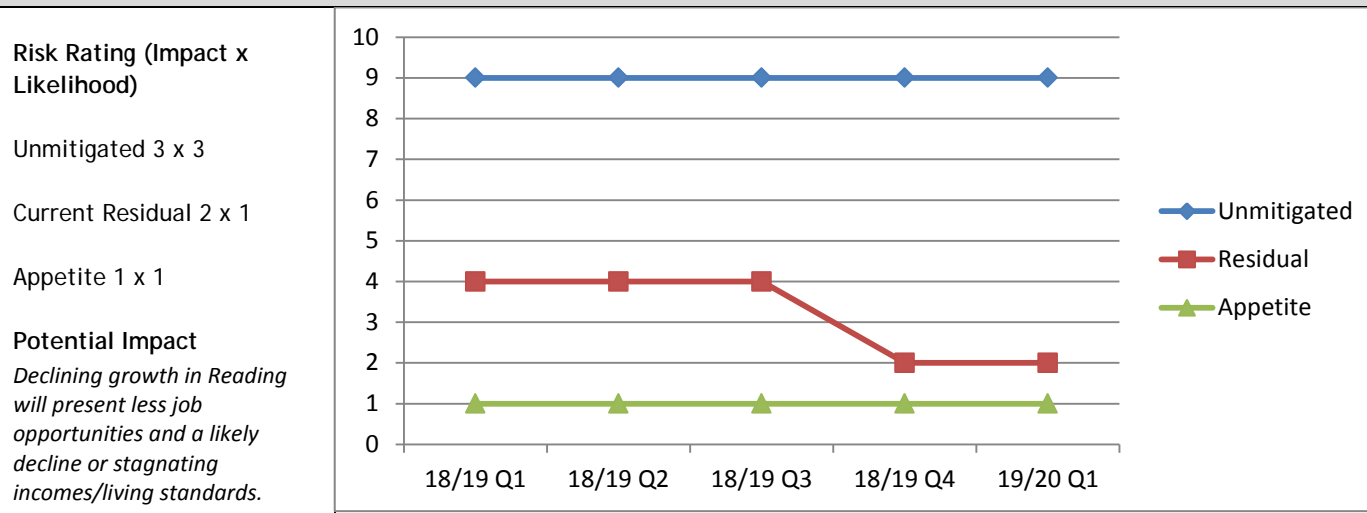
- Providers are required to have a business continuity plan in addition where the provider is not an RBC run service the plans of each independent provider are checked as part of the ASC contract monitoring procedures.
- Contracts with the voluntary sector retendered and being implemented.
- Agreed a Section 75 for the Better Care Fund
- Business Continuity Plans reflect critical functions.
- Key contracts are monitored on a regular basis as part of the contract performance mechanisms in place for all contractors. This should address any capacity or performance issues that might indicate that there may be issues with financial/general viability
- Financial assessments of tenderers undertaken for all major contracts let by the Council and annual financial assessment checks where appropriate for major contractors
- To raise profile of having effective contract management in place
- The ASC provider failure protocol has recently been updated and approved
- Intervention where providers are failing to support them in delivering a service if viable and appropriate.
- Implementation of the new Care Home contract is under way

Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer responsible	Target date
Shaping the Care Home and Home Care/ Supported Living market through the issue of new dynamic framework contracts that are fit for the future	Assistant Director - DACHS	1.4.20
The implementation of the Directorates Strategy for Adults and Health "Supporting Our Future", Three Year Commissioning Plan, and Market Position Statement.	Assistant Director - DACHS	1.8.19
Completing the implementation of new Care Home contracts and a sustainable, Cost of Care model	Assistant Director - DACHS	1.9.19
Seeking solutions to work SMARTER across Children and Adults - commissioning under prevention frameworks.	Assistant Director - DACHS / Head of Procurement/ BFFC Contract Manager	31.12.19

**Risk 6:** Insufficient vision and strategy for regeneration and economic growth leading to a lack of long-term investment in strategic infrastructure and consequential decline in economic growth and prosperity in Reading and the wider sub-region.

**Risk Owners:** Executive Director for Economic Growth & Neighbourhood Services

**Corporate Priority:** *Securing the economic success of Reading*



**Rationale for current score:**  
Reading's (and the wider Thames Valley) economy remains relatively buoyant but will potentially be negatively affected by wider economic trends, including the impact of Brexit. The Council's role in creating the right conditions for growth is however significant.

**Rationale for risk appetite:**  
The economic success of the town is critical to quality of life and also has an inherent link to demands on Council services as well as income.

**Current RAG rating** AMBER

**Current Actions** (What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual)

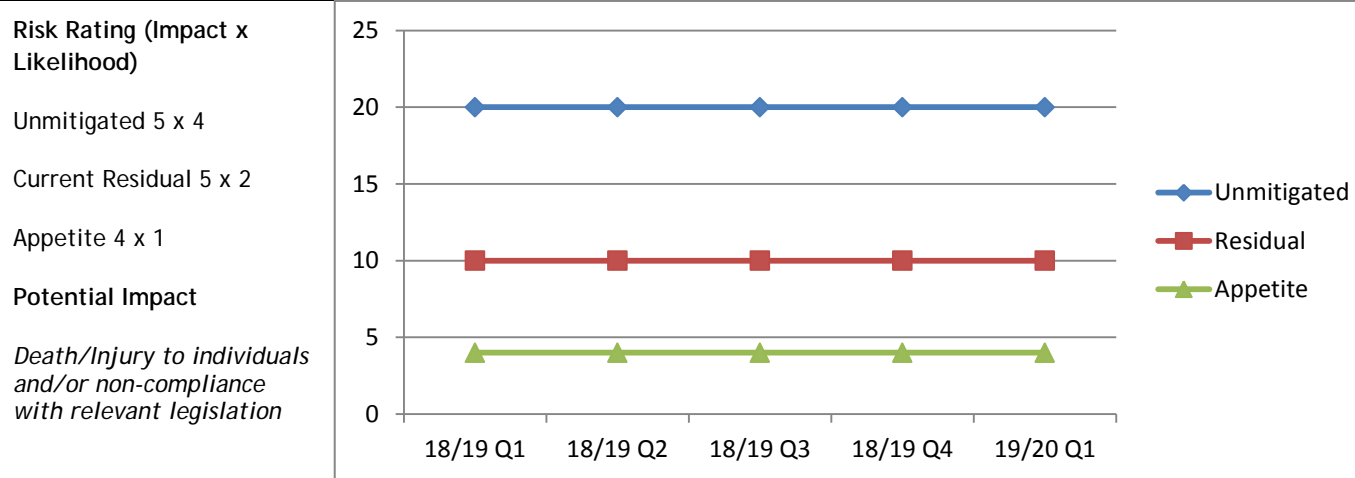
- A33 MRT schemes underway - phases 1 & 2 delivered, phases 3 & 4 due for completion end 2019. (Future phases subject to funding).
- Green Park station project - site mobilisation works commenced in Autumn 2018 with station opening in Winter 2020
- New Local Transport Plan 4 with visioning consultation scheduled for the Summer 2019
- Smart City Cluster Project - A 1.73million grant has been obtained to create an Internet of Things communication platform to gather and distribute data such as an environmental and traffic information.
- The Council's new Local Plan setting out how Reading will develop up to 2036 ensuring housing, economic, environmental and social needs are met will be examined in September 2018 and due for adoption in Spring 2019.
- The full housing needs required up to 2036 cannot be delivered within the Borough. RBC is working with Councils within the Western Berkshire Housing Market Area through an agreed MoU to ensure that the full housing needs are accommodated.
- The Council's new build housing programme is adding to the supply of affordable housing in the town - Phase 1 completes Summer 2019 and will have provided 148 new affordable homes.
- 2 x BID areas agreed

Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer responsible	Target date
A project to install a 3 <sup>rd</sup> Thames Bridge at East Reading at the base of the A329 is being worked up with neighbouring local Authorities. This would ease traditional bottlenecks at Reading and Caversham Bridges, also reducing Town centre congestion as traffic would no longer be required to travel from the A329 through the Town Centre to the current bridges	Strategic Transport Programme Manager	TBC - subject to funding
Visioning work and public consultation to be undertaken to inform the emerging Local Transport Plan	Head of Transport	Summer 2019
Continue to develop a comprehensive network of sustainable travel choices, such as Park and Ride and enhanced public transport cycling and walking routes.	Strategic Transport Programme Manager	Ongoing - forms a part of the Council's Local Transport Plan
Adoption of the Local Plan	Head of Planning, Dev. & Regulatory Services	Autumn 2019

	<p>Local Authority New Build Programme on Council owned land over the next three years: Phase 2 will deliver circa 100 affordable homes - spend approved; schemes working through Planning</p> <p>Phase 3 schemes will deliver a further net 198 affordable rented Council homes. Spend and scheme approval for 2 sites required. Homes England bid submitted awaiting outcome .</p>	<p>AD Housing &amp; Communities and DD Assets and Regen</p>	<p>2020-2022</p>						
<p><i>Risk 6 continued</i></p>									
<p><b>Current Actions</b><i>(What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual)</i></p> <ul style="list-style-type: none"> <li>• Joint work with Reading UK CIC to market and promote the town and secure investment in a high quality town centre offer and explore opportunities to improve the public realm.</li> <li>• Joint work with the TV Berkshire LEP to produce Local Industrial Strategy</li> <li>• Delivery of a comprehensive cultural programme to raise Reading's profile, including for inward investors, with this being a key shared endeavour with the Council, Reading UK and the University as key partners, including:             <ul style="list-style-type: none"> <li>- Re-opening the Abbey Ruins to the public and as a venue for a range of events and activities;</li> <li>- Further development of the Abbey Quarter, including significant investment in the Town hall &amp; Museum;</li> </ul> </li> <li>• Delivery of the three year 'Great Places' scheme, including a new annual Reading-on-Thames Festival started Sept 18 and to return Sept 19</li> <li>• Council responded to the draft Berkshire Local Industrial Strategy June 2019</li> </ul>	<p><b>Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities</b></p> <table border="1" data-bbox="1070 539 2060 794"> <tr> <td data-bbox="1070 539 1749 683"> <p>Secure appropriate and high quality development / re-development of the Reading Prison site to enhance the attractiveness of the town centre / Abbey Quarter as a destination.</p> </td> <td data-bbox="1749 539 1910 683"> <p>Head of Planning, Dev. &amp; Regulatory Services</p> </td> <td data-bbox="1910 539 2060 683"> <p>Ongoing and subject to MoJ</p> </td> </tr> <tr> <td data-bbox="1070 683 1749 794"> <p>Further develop delivery plans to achieve the 2050 vision and to secure additional resources linked to these plans building on 'Smart City' investment already secured.</p> </td> <td data-bbox="1749 683 1910 794"> <p>Head of Economic &amp; Cultural Dev.</p> </td> <td data-bbox="1910 683 2060 794"> <p>Ongoing</p> </td> </tr> </table>			<p>Secure appropriate and high quality development / re-development of the Reading Prison site to enhance the attractiveness of the town centre / Abbey Quarter as a destination.</p>	<p>Head of Planning, Dev. &amp; Regulatory Services</p>	<p>Ongoing and subject to MoJ</p>	<p>Further develop delivery plans to achieve the 2050 vision and to secure additional resources linked to these plans building on 'Smart City' investment already secured.</p>	<p>Head of Economic &amp; Cultural Dev.</p>	<p>Ongoing</p>
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<p>Further develop delivery plans to achieve the 2050 vision and to secure additional resources linked to these plans building on 'Smart City' investment already secured.</p>	<p>Head of Economic &amp; Cultural Dev.</p>	<p>Ongoing</p>							

**Risk 7: The Council doesn't take adequate mitigation to reduce the risk of injury or death from incidents within Council residential accommodation and private high rise within the borough** **Risk Owners:** Assistant Director for Housing & Communities

**Corporate Priority:** *Improving access to decent housing to meet local needs*



**Rationale for current score:**  
A significant amount of work has been undertaken and is underway (across the Council and Fire Service) following Grenfell Tower to address the issues raised by that incident. This has reduced the likelihood of a significant fire related incident but the impact remains high.

**Rationale for risk appetite**  
The Council has a low appetite for injury or death to its residents tenants. Considering that the impact of an incident is potentially a fatality, the Council's residual risk score may never reach our appetite.

Current RAG rating RED

**Current Actions (What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual)**

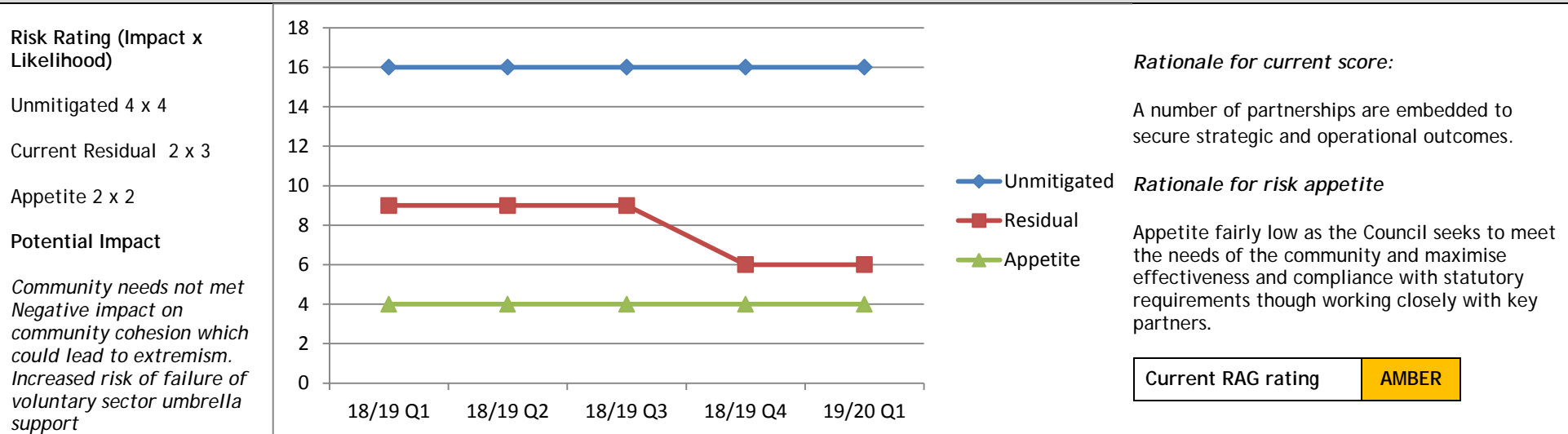
- Detailed Housing Service action plan completed in respect of fire safety post Grenfell Tower. H&S compliance monitoring has been reviewed and strengthened.
- Type 4 intrusive Fire Risk Assessments of sample high rise and other higher risk low rise blocks completed. Overall findings were positive. Advice re additional fire safety measures proposed to proactively improve safety in flatted blocks have been been costed and scheduled - this has resulted in a capital requirement over 5 years of circa £6-7m in the Housing Revenue Account. Works have been or are being commissioned according to our 5 year programme of works.
- All 350 RBC flatted residential blocks had an FRA completed as at end December 2017 and are on a rolling programme of assessment per LGA guidance using external and internal capacity. Internal assessors are fully trained but we are now additionally seeking external accreditation.
- A block inspector regularly checks all blocks and housing officers are on site most days to ensure frequent monitoring. From this year every flat within the blocks will have their smoke alarm tested every year and tenants are encouraged to check them weekly.
- Joint RBC and Royal Berkshire Fire and Rescue Service (RBFRS) service inspections of priority high rise following an MoU. 86 residential buildings over 18 meters in height have been identified within the Reading Borough Council administrative area including the 7 local authority blocks.
- Working with owners to remove ACM cladding on three high rise buildings. Interim measures in place to secure safety of residents. Regular reporting to DHCLG.
- Corporate working group set up to review, agree and implement actions arising. ASC are reviewing the procurement standards and checks within their housing. The issue has been raised with BfFC.

Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer responsible	Target date
In 2018/19 a wider external audit of health and safety practice in Housing has been commissioned. It is intended that an annual audit will now be carried out with a different agreed focus each year. Audit completed in 2018/19 with a focus on Construction, Design and management (CDM) . Report and action plan finalised - with external assessor and actions are being worked through.	Housing Building Maintenance Manager	Sept 19
Continue to work with and monitor owners response to remove cladding from three high rise properties. Work to remove cladding on two buildings has commenced. Address issues raised following the joint RBRFS inspections and react to emerging issues as they are identified.	Head of Planning & Regulatory Services.	Ongoing
Continue to monitor our Corporate response via the Corporate Fire Safety Working Group. In particular, ensure that housing procured for vulnerable adults and children have the relevant agreements and checks in place.	Head of Planning & Regulatory Services.	Ongoing

**Risk 8: Partnerships - Failure to develop and maintain key partner relationships results in failure to deliver key shared outcomes**

**Risk Owners:** Head of Customer Care and Transformation and Head of Transformation & Performance

**Corporate Priority:** *Securing the economic success of Reading. Improving access to decent housing to meet local needs. Protecting and enhancing the lives of vulnerable adults and children*



**Current Actions**(What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual)

- Reading 2050 vision document sets out a shared view of key priorities for the future of Reading. We will be working with partners across the town to identify the actions needed to deliver this vision a Reading Futures Commission group made up of key partners is being set up to steer this.
- Community Safety Partnership - brings together the Council, Police and a wider range of partners and agrees clear joint strategic priorities with activity monitored through a number of delivery groups reporting to the partnership; regular and structured liaison is in place between RBC/Police at a range of tiers.
- Local Enterprise Partnership and joint working to influence investment in infrastructure, skills and private sector to support economic growth.
- Cultural Partnership and Cultural Education Partnership to drive delivery of a cultural renaissance and contribute to achieving priority social outcomes, including educational attainment, employment and employability, health and well-being (targeting more vulnerable groups / communities).
- We have set up quarterly meetings of the chief executives voluntary and community sector sounding board to identify areas for joint working on key areas of concern
- Key stakeholder meetings are held with key partners on an ongoing basis
- One Public Estate Partnership - to oversee and implement shared property ambitions across the public estate.
- CSC - participation in statutory and strategic partnerships to include Local Safeguarding Board, Children's Trust Board, Children's Services Improvement Board,

Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer responsible	Target date
Pilot work with the voluntary sector to deliver the adult social care front door function thus enhancing out wider preventative offer and reducing the need for reliance on statutory services	Assistant Director of transformation and performance	Oct 19
Launch of the Market Position Statement with Adults Social Care providers to provide clarity on the services direction of travel, service defects and market shaping opportunities	Assistant Director of transformation and performance	Sept 19
Relaunch of Adult Social Care and integration governance across a wider geographical footprint with Local Authorities firmly engaged and influencing the development of the health and social care economy	Assistant Director of transformation and performance	Sept 19
Work to improve partnership working in areas of multiple deprivation to commence 20/21	TBC	Q4 20/21



<p>Health &amp; Wellbeing Board. Strategic Management Group (TVP)</p> <ul style="list-style-type: none"> <li>• Adult Social Care provider forums meet quarterly with a focus on new ways of working, areas for service developments and markets challenges</li> <li>• Adult Social Care and Health Integration and collaborative working is discussed at the Berkshire West 7 Programme Board that meets monthly.</li> </ul>	<p>Review the quality of partnership work and consider whether to reintroduce a Local Strategic Partnership body</p>	<p>Head of Customer Care and Transformation</p>	<p>Q4 20/21</p>
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<p><b>Risk 9: BfFc - Failure of the new Children’s Company to improve service levels and financial overspend, results in poor performance and accelerated adverse financial impacts (as failure to improve overspend means the Council is unable to access the delivery fund grant)</b></p>		<p><b>Risk Owner: Assistant Director for Procurement &amp; Contracts</b></p>																					
<p><b>Risk Rating (Impact x Likelihood)</b></p> <p>Unmitigated 4 x 4</p> <p>Current Residual 4 x 2</p> <p>Appetite 2 x 2</p> <p><b>Potential Impact</b></p> <p><i>Financial overspend, poor service provision and impacts on children</i></p>	<table border="1"> <caption>Risk Rating Data</caption> <thead> <tr> <th>Quarter</th> <th>Unmitigated</th> <th>Residual</th> <th>Appetite</th> </tr> </thead> <tbody> <tr> <td>19/20 Q1</td> <td>16</td> <td>8</td> <td>4</td> </tr> <tr> <td>19/20 Q2</td> <td>16</td> <td>8</td> <td>4</td> </tr> <tr> <td>19/20 Q3</td> <td>16</td> <td>8</td> <td>4</td> </tr> <tr> <td>19/20 Q4</td> <td>16</td> <td>8</td> <td>4</td> </tr> </tbody> </table>	Quarter	Unmitigated	Residual	Appetite	19/20 Q1	16	8	4	19/20 Q2	16	8	4	19/20 Q3	16	8	4	19/20 Q4	16	8	4	<p><i>Rationale for current score: Brighter Futures for Children is a new company and as such governance processes between Council and Company are still settling in and being developed.</i></p> <p><i>Rationale for risk appetite: Delivery of services for Children is of the highest importance.</i></p> <p>Current RAG rating <span style="background-color: red; color: white; padding: 2px;">RED</span></p>	
Quarter	Unmitigated	Residual	Appetite																				
19/20 Q1	16	8	4																				
19/20 Q2	16	8	4																				
19/20 Q3	16	8	4																				
19/20 Q4	16	8	4																				
<p><b>Current Actions (What we are currently doing about the risk - Causes Unmitigated Score to reduce to Residual)</b></p> <ul style="list-style-type: none"> <li>Contract governance arrangements have been set up to provide monthly reporting overviews on the BfFc finances, to enable early sight of any financial issues and concerns</li> <li>Part of the financial reporting includes updates on the delivery of the transformation plan to support both service improvements and efficiencies</li> <li>There are also informal meetings between RBC officers and the BfFc Director for Finance and Resources</li> <li>From a service perspective, there is a monthly Children’s Services Improvement Board which also provides oversight and partner support to the BfFc overall Improvement Plan. Whilst this focusses on Children’s Services, the plan requires close working with Education and Early Years on overall system improvement</li> <li>Service delivery of BfFc is supported in a number of areas by the delivery of support service SLAs by RBC. The BfFc Contract Management function also monitors the services delivered by RBC to support overall BfFc and RBC aims</li> </ul>		<p><b>Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities</b></p> <table border="1"> <thead> <tr> <th></th> <th>Officer (s) responsible</th> <th>Target date</th> </tr> </thead> <tbody> <tr> <td>Continue the current actions listed to the left</td> <td>KG</td> <td>Ongoing</td> </tr> <tr> <td>Support the Improvement of recruitment and retention of staff at all levels with BfFc via the HR support SLA</td> <td>SS/JY</td> <td>Ongoing</td> </tr> </tbody> </table>			Officer (s) responsible	Target date	Continue the current actions listed to the left	KG	Ongoing	Support the Improvement of recruitment and retention of staff at all levels with BfFc via the HR support SLA	SS/JY	Ongoing											
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Continue the current actions listed to the left	KG	Ongoing																					
Support the Improvement of recruitment and retention of staff at all levels with BfFc via the HR support SLA	SS/JY	Ongoing																					
<p><b>Risk 10: Adult Safeguarding - Risk of death harm or injury to vulnerable persons for whom we have a responsibility</b></p>		<p><b>Risk Owners: Executive Director of Social Care and Health</b></p>																					

Corporate Priority: *Protecting and enhancing the lives of vulnerable adults and children*

Risk Rating (Impact x Likelihood)

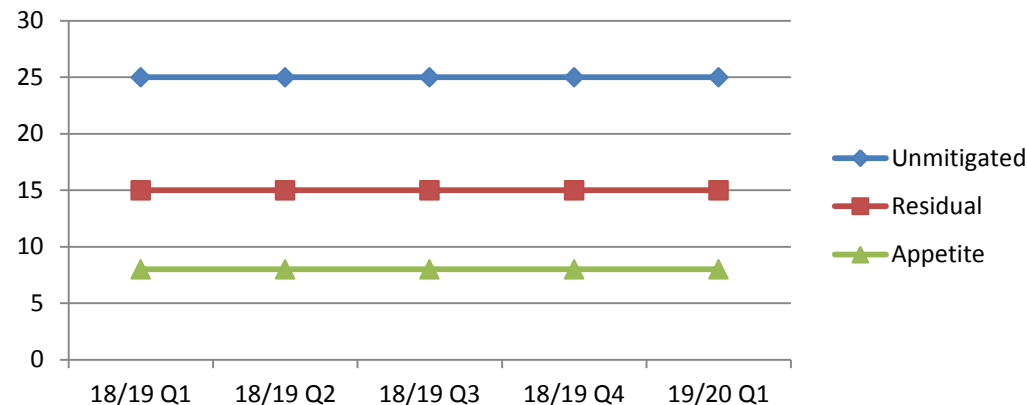
Unmitigated 5 x 5

Current Residual 5 x 3

Appetite 4 x 2

Potential Impact

Death or injury. Loss or reputation. Fines/penalties. Insurance claims



Rationale for current score:

Risk of death or serious injury

Rationale for risk appetite

Given the risk relates to the safeguarding of vulnerable individuals the risk appetite is low.

Current RAG rating **RED**

Current Actions (What we are currently doing about the risk- Causes Unmitigated Score to reduce to Residual)

- From June 2019 Safeguarding Team Manager to sign off all S42 Safeguarding enquiries before closure.
- In instances where there is a serious concern or death, in unexplained circumstances or where abuse is suspected, these cases are referred as a Safeguarding Adults Review, to the Safeguarding Adults Board (SAB). At this point consideration is given to whether this will be investigated further, independently if required.
- Review of policies and procedures in Operations and Commissioning to ensure a joint quality assurance framework in relation to providers where safeguarding concerns are raised.
- Director level oversight of weekly tracking of Adult Safeguarding referrals and protection plans. This is monitored via the Adults Performance Board. to commence and monitoring via the Adults Performance Board.
- Contact monitoring is in place alongside timely reviews of individuals in care settings.

Further Mitigation (what more should we do to reduce residual risk to our risk appetite level) and opportunities	Officer responsible	Target date
Director level oversight / Weekly tracking of safeguarding referrals and protection plans	Deputy Director	31.10.19
Quality Assurance Framework to be revised to ensure standards are maintained to the contract requirements.	Head of Strategic Commissioning - DACHS	1.9.19
Develop Council wide response to Modern Slavery	Public Health Consultant	31.10.19

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# Agenda Item 8

READING BOROUGH COUNCIL REPORT BY

EXECUTIVE DIRECTOR OF RESOURCES

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	23 July 2019		
TITLE:	IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER		
LEAD COUNCILLOR:	COUNCILLOR EMBERSON	PORTFOLIO:	CORPORATE & CONSUMER SERVICES
SERVICE:	AUDIT	WARDS:	BOROUGHWIDE
LEAD OFFICER:	JACQUELINE YATES	TEL:	x74710
JOB TITLE:	EXECUTIVE DIRECTOR OF RESOURCES	E-MAIL:	Jackie.Yates@reading.gov.uk

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The outcomes of all internal and external audit reports are reported to this Committee.
- 1.2 Following discussion at the April 2018 Audit and Governance Committee it was agreed to provide a greater focus on the importance of implementation of agreed audit recommendations an implementation tracker report would be reported to all future meetings of this Committee. This is the fifth report on the tracker.
- 1.4 Appendix 1 attached sets out all of the current high and medium risk internal audit recommendations and the officer responsible for implementing them.

**Appendix 1 - Audit Recommendations - Implementation Tracker July 2019.**

## 2. RECOMMENDED ACTION

- 2.1 The Committee are asked to note the report.

## 3. POLICY CONTEXT

- 3.1 This report supports the Council's objective of ensuring that the Council is fit for the future.

## 4. THE PROPOSAL

- 4.1 A summary of those high and medium risk Internal Audit recommendations which remained outstanding at the last Committee together with an updated management response is provided in Appendix 1 attached. Those recommendations which were reported as closed at the last meeting have been removed from the tracker and 28 new recommendations have been added to the Implementation Tracker since the last meeting.

Going forward all new Internal and External audit recommendations will be added to the tracker.

- 4.2 Prior to reporting to Committee officers responsible for implementing the specific recommendations are asked to update the 'Implementation Tracker'. Each recommendation is marked with a percentage complete which correlates to a red/amber/green rating depending on the percentage of completeness. Up to 25% complete is marked red, between 26% and 75% complete is amber and over 75% complete is green. However, any recommendations that are less than 50% complete but have exceeded their agreed completion date are also marked red.
- 4.3 Once recommendations are reported as being 100% complete to the Committee they are removed from subsequent reports.
- 4.4 Where there is a lack of progress with implementation, e.g. successive missing of implementation dates etc. The Assistant Director and responsible officer (if they are different) will be asked to attend a meeting of the Committee to explain the difficulties with implementation and the steps they are taking to address them.
- 4.5 There are 87 high and medium risk Internal Audit recommendations on the tracker attached at Appendix 1, of those
- 37 (43%) are currently green;
  - 29 (33%) amber and
  - 21 (24%) red

Compared to the previously reported position recommendations which are rated green have reduced from 53% to 43%. Amber recommendations have increased by 4% and those rated red have increased (by 6%). The increase in those rated red is mainly due to a number of new audits, recently completed. Actions to address some of these 28 new recommendations are not yet due.

16 recommendations are completed and will be deleted from the next report.

The table below provides a comparison of progress against reports in the past year.

RAG Status	Audit & Governance meetings			
	September 18	January 19	April 19	July 2019
<b>Green</b>	<b>42%</b>	<b>49%</b>	<b>53%</b>	<b>43%</b>
<i>Number of Recs</i>	<i>44</i>	<i>57</i>	<i>48</i>	<i>37</i>
<b>Amber</b>	<b>18%</b>	<b>34%</b>	<b>29%</b>	<b>33%</b>
<i>Number of Recs</i>	<i>19</i>	<i>40</i>	<i>26</i>	<i>29</i>
<b>Red</b>	<b>41%</b>	<b>16%</b>	<b>18%</b>	<b>24%</b>
<i>Number of Recs</i>	<i>43</i>	<i>19</i>	<i>16</i>	<i>21</i>
<i>Total Recommendations</i>	<i>106</i>	<i>116</i>	<i>90</i>	<i>87</i>

## 5. CONTRIBUTION TO STRATEGIC AIMS

- 5.1 The proposals contained in the report support the Council's Corporate Plan priority to:
- Remain financially sustainable to deliver its service priorities.

## 8. LEGAL IMPLICATIONS

- 8.1 The Council has a duty under the Accounts and Audit Regulations to ensure it has in place a financial control framework which is fit for purpose. It also has a duty to ensure Value for Money in the provision of services.

## 9. FINANCIAL IMPLICATIONS

- 9.1 Whilst there are no specific financial implications arising directly from this report, the timely implementation of audit recommendations is critical in strengthening the Council's internal control and governance arrangements.
- 9.1 The Council's Chief Internal Auditor's reports have over several years repeatedly reported that audit recommendations made in previous audits have not been implemented. This does not represent value for money from either an audit or wider organisational perspective.
- 9.2 Poor systems of internal control and financial governance potentially leave the Council exposed to loss and will result in higher external audit costs due to the lack of assurance they provide and the consequential higher testing thresholds required by the Council's external auditors.
- 9.3 Whilst there are still a large number of recommendations that are rag rated red, there has been positive engagement with the new arrangements and significant improvement since implementing the new tracking and reporting process

## 10. BACKGROUND PAPERS

- 10.1 Internal Audit Reports presented to Audit and Governance Committee, Chief Internal Auditors Annual Report 2017 & 2018.

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
1	DoR	Bank rec & control account reconciliations	<p>1. A corporate approach for producing reconciliations, evidencing balances and for monitoring the completion status, issues and their resolution needs to be produced and agreed.</p> <p>2. Greater staff/resource resilience is required to ensure the reconciliations are completed on a timely basis throughout the year.</p> <p>3. Departments should be required to provide a reconciliation position statement each month.</p> <p>4. Response will be addressed in rec 5 2017-18 action plan</p> <p>5. In conjunction with recommendation 3, reconciliation needs to be brought up to date.</p> <p>6. The completion and review of the bank reconciliation status MUST be a monthly key priority.</p>	16/17	9-Feb-17	4-Oct-17	<p>Matt Davis - Assistant Director of Finance, Jean Stevenson - Chief Accountant</p> <p>Reconciliation officers: Bank &amp; cash – Jean Stevenson Creditors – Jean Stevenson Council Tax, HB, NNDR, Debtors – Sam Wills Payroll – Sharon Brown Rents – Zelda Wolfie</p>	All these recommendations have been implemented with the exception of inclusion in the monthly monitoring (recommendation 6)	8-Jul-19	76 or more	
2	DoR	Bank rec & control account reconciliations	The Assistant Director of Finance should ensure there is sufficient resource available to properly and robustly plan, execute, test and implement the accepted bank and cash reconciliation process	16/17	9-Feb-17	4-Oct-17	Jean Stevenson - Chief Accountant / Matt Davis - Assistant Director of Finance	Whilst resources remain tight following the Finance restructure, the Technical Accountant has produced procedures and has organised the Technical team to ensure reconciliations are kept up to date. The procedures are currently being tested and the bank reconciliation is up to date.	26-Jun-19	Complete	
3	DoR	Bank rec & control account reconciliations	<p>Following implementation of recommendation 1 of last years action plan, business process documents should be written for each reconciliation process to include:</p> <ul style="list-style-type: none"> <li>• Purpose of the procedure (impact on council)</li> <li>• Clearly define the outcome of the process</li> <li>• Name the process in accordance with naming conventions</li> <li>• Define the start and end of the process</li> <li>• Outline who does what and responsibilities – not person specific but role specific</li> <li>• Tools to complete the process, Systems, printing, marking etc.</li> <li>• Exceptions – if process goes wrong, system down etc.</li> <li>• Individual steps to get from start to finish</li> <li>• Reports used etc.</li> <li>• What to do when completed – balanced and unbalanced, actions, financial levels, responsibilities and authority</li> <li>• Review and sign off by the Assistant Director of Finance</li> <li>• Reporting framework</li> <li>• Evidence</li> <li>• Storage &amp; protection</li> </ul>	16/17	9-Feb-17	4-Oct-17	Jean Stevenson - Chief Accountant / Matt Davis - Assistant Director of Finance	The Technical Accounting team are using the new procedures and will review them fully once the backlog of issues with the Statement of Accounts have been cleared. Reconciliations are being submitted monthly to the Chief Accountant for review. The bank reconciliation processes have now been documented and documentation of the other reconciliations will be implemented and reviewed as part of implementing the monthly tracker process. No further progress has been made on these recommendations due to other work taking precedence	8-Jul-19	76 or more	
4	DoR	Bank rec & control account reconciliations	<p>The Assistant Director of Finance should provide guidance and advice on the treatment of historic reconciling adjustment items for all system reconciliations.</p> <p>Likewise technical advice should be given in respect of those systems reconciliations that continue to have unreconciled balances.</p>	16/17	9-Feb-17	4-Oct-17	Matt Davis - Assistant Director of Finance	Historic differences on the bank reconciliation and other reconciliations have now been written out as part of the finalisation of the 2017/18 accounts. A monthly review is to be conducted as part of the new tracking process to ensure that any unreconciled items are cleared promptly.	26-Jun-19	Complete	
5	DoR	Bank rec & control account reconciliations	<p>The 'unresolved' suspense items on Academy should be periodically (quarterly) checked to Academy to ensure correct recording.</p> <p>The Assistant Director of Finance should agree the treatment of historic unresolved items.</p>	16/17	9-Feb-17	4-Oct-17	Matt Davis - Assistant Director of Finance/ Jean Stevenson - Chief Accountant	Reconciliations to the end of March 2018 have been reviewed as part of the closure of 2017/18 accounts and historic amounts have been written off. Ongoing reviews will be conducted by the Technical Accountant and periodically reviewed by the Chief Accountant.	26-Jun-19	Complete	



Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
6	DoR	Creditors/AP	Formulate an action plan to address corporately the larger number of open purchase orders with a view to closing as many as possible.	18/19	1-May-18		Matt Davis - Assistant Director of Finance/ Christopher Beauchamp - Accounts Payable Manager Jennifer Bruce - Financial Systems Manager	All purchase orders over 18months old have now been closed by the Systems Team The AP team are currently closing all older style purchase orders beginning with 5, good progress being made, there is an outstanding issue with older legal purchase orders being closed. Completion date 30/08/19	26-Jun-19	76 or more	
7	DoR	Creditors/AP	Operational issues identified should be addressed in new procedure manual to avoid reoccurrence.	18/19	1-May-18		Matt Davis - Assistant Director of Finance/ Christopher Beauchamp - Accounts Payable Manager Jennifer Bruce - Financial Systems Manager	Operation issues regarding Fusion are being address with the Fusion Team to avoid the development of a work around manual. Procedure for all of the correct Account Payable process still being produced, Completion 31/07/19	26-Jun-19	51 to 75	
8	DoR	Creditors/AP	Documented processes for all areas of operation linked to clearly defined roles and responsibilities for members of staff. This would include identifying the business interfaces and expectations around processing, time taken volumes of business for areas like Mosaic payments or expenditure limits on cost centre codes etc.	16/17	25-Mar-17	1-May-18	Jean Stevenson - Chief Accountant Chris Beauchamp - Accounts Payable Manager	SLA set up for BFFC. For RBC our Fusion system is under review, this review is looking into our current setting and interfaces between Fusion and Mosaic/Planet FM.	26-Jun-19	76 or more	
9	DoR	Creditors/AP	Need to clearly identify the strategic contribution of AP to the authority and what is required to make AP business process(es) effective for efficient use of AP for the council.	16/17	23-Mar-17	1-May-18	Matt Davis - Assistant Director of Finance Chris Beauchamp - Accounts Payable Manager	The strategic contribution is for accounts payable to enforce controls of expenditure on the Council. The main focus of this will be the roll out of supplier portal, to reduce costs to the council in terms of processing. This has been delay due to issues around the Fusion open purchase order report that has prevented a clean up of open purchase information, clean up happening now. Portal has been tested and is working, suppliers to be invited to use portal and to send invoices directly into the Fusion scanning/imaging solution, mass/auto matching within fusion to be considered once 75% of suppliers on-board with portal/scanning solution. Open PO's/receipts to be address for each supplier when invited to Supplier Portal. P2P is not voluntary and all invoices being processed through Fusion do have PO No.'s. The above is covered by the P2P compliance project. Supplier currently being added to the supplier portal on an add hoc basis (if requested and all the purchase orders are up to date, mass roll to begin in September 2019	26-Jun-19	51 to 75	
10	DoR	Creditors/AP	Further work needs to be done to ensure that goods are receipted promptly and for the correct amount or value. Reports need to be run on a regular basis to identify and tackle late payments.	16/17	23-Mar-17	1-May-18	Chris Beauchamp - Accounts Payable Manager	Majority of invoice now being sent to Accounts Payable directly reducing the chances of invoices going missing/getting delayed, invoices are rejected back to supplier if the invoice does not meet RBC P2P requirements. Open purchase order report now working for business partners to action with budget managers, challenging old and open purchase orders and unmatched receipts. Accounts Payable has now developed a report to enable to them to identified all invoices on hold and the reasons for the hold including unreceipted invoices. Accounts payable is currently running the report once a month and chasing requesters via phone and emails about their invoices on hold.	26-Jun-19	Complete	

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
11	DoR	Creditors/AP	Need to review the supplier database and cull inactive suppliers as well and consider if centralisation of procurement would be more cost efficient in terms of ordering and paying for goods and services.	16/17	23-Mar-17	1-May-18	Chris Beauchamp - Accounts Payable Manager	Cull of inactive suppliers all done. The role of supplier set up and maintenance is moving to procurement who are currently recruiting for position they as also undertaken a project to create a preferred supplier list. This is no longer an AP responsibility	8-Jul-19	51 to 75	
12	DoR	Debtors	The various policies, guidance and procedure notes relating to the raising, monitoring and treatment of debt generally should be reviewed and where necessary brought up to date. In addition they should be clearly documented on Iris, if appropriate and all relevant staff and users advised of their location and the need for them to comply with these.	17/18	5-Jun-17	7-Feb-18	Chris Beauchamp - Accounts Payable Manager	Debtors team was joined to the AP Team from 01.10.2018. Decision was made to not update policies and procedures until debtors ledger is moved from Academy to Oracle Fusion. Project Migration scoping session undertaken. Project Plan now in place, funding agreed. New policies and procedures will form part of the project migration plan. Project completion date 01/06/2019	26-Jun-19	76 or more	
13	DoR	Debtors	All staff who raise invoices should be reminded that: a) invoices should be raised accurately and on a timely basis; b) each invoice should bear the necessary information or detail to reduce the likelihood of subsequent customer queries; c) as a principle services should not continue to be provided until outstanding invoices have been paid; d) there should be clear supporting records and information concerning the invoice that is easily accessible and understandable in the event of future query or need.	17/18	5-Jun-17	7-Feb-18	Chris Beauchamp - Accounts Payable Manager	Web forms are now operational and working well with the exception of invoice request from BFFC, these web forms are still not operational, these should be live by september	8-Jul-19	76 or more	
14	DoR	Debtors	It is further suggested that the role and work undertaken by Legal Services in the recovery of unpaid items is reviewed and re-evaluated to ensure it remains appropriate and fit for purpose. Once it is clear what is agreed it is recommended that this is defined in an SLA between Legal Services and Income & Assessment.	17/18	5-Jun-17	7-Feb-18	Chris Beauchamp - Accounts Payable Manager	A Service Level Agreement (SLA) with legal is still being developed to clarify the role of legal in the recovery of unpaid debt. Regular monthly meetings between legal services and income and assessment are underway until the SLA is being is fully developed and agreed	26-Jun-19	51 to 75	
15	DACHS	Direct Payments	It is essential that records are updated accurately and in a timely fashion. Currently there are multiple records that need to be individually updated to provide a complete record of actions and transactions relating to individual DP clients. Therefore it is recommended that the current process is reviewed to assess whether a more streamlined record keeping system could be designed so that records agree, with the purpose of freeing PBST time for monitoring purposes.	17/18	24-Nov-17		Jayne Rigg, Commissioning & Social Care Manager	This is now complete and evidenced in the latest audit review from April 12019	28-Jun-19	Complete	

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
16	DACHS	Direct Payments	In order to demonstrate appropriate controls over the use of public funds it is recommended that the strategy, resources and purpose of the current checking programme is reviewed. In particular it is important that the required validation regime (frequency, process etc.) is assessed to make sure that it provides a reasonable but effective challenge to check and agree the legitimacy of expenditure. A pivotal consideration should include an assessment of existing staffing resources and whether these are adequate in order to discharge the standards RBC should be expecting as the responsible body. If the assessment determines that (additional) changes are required then it should also be determined what (additional) resources are needed, if any.	17/18	24-Nov-17		Jayne Rigg, Commissioning & Social Care Manager	This is complete and was evidenced in the latest audit review of April 2019	28-Jun-19	Complete	
17	DACHS	Direct Payments	It is strongly recommended that the strategy to deliver pre-paid cards is reviewed and where appropriate tightened so that (unless there are good and documented reasons not to do so that are assessed on a case by case basis) the principle of their adoption (of pre-paid cards) becomes understood and accepted as the norm. It is also recommended that management identifies whether there needs to be a programme of education or support across relevant areas in the directorate (including care management colleagues) so that the take up is increased and it is further suggested that targets are set for this to happen. An option may be for the Council to remove the choice aspect and explore moving all (new) clients straight on to Pre-paid cards, as some other local authorities already do.	17/18	24-Nov-17		Jayne Rigg, Commissioning & Social Care Manager	Since January 2019 pre-paid cards have been the default offer for all new and reviewed cases. Over 80% of all direct payment recipients are now operating that payment via a pre-paid card.	28-Jun-19	76 or more	
18	DACHS	Financial Deputies	Serious consideration and management support needs to be given to moving to a direct payments system for clients, where feasible, to reduce the amount of cash handled and time required to administer.	17/18	16-Feb-18	01-Jun-18	Jo Purser - Locality Manager	The majority of people now have card accounts open and bank visits reduced as a result. There is a still number of people receiving cash but this is their only option.	20-Jun-19	Complete	
19	DACHS	Financial Deputies	The premise of the team needs to be reviewed. If the team is to be cost neutral, this needs to be carefully costed out to ensure that this is achievable (particularly in terms of income targets).	17/18	16-Feb-18	01-Jun-18	Jo Purser - Locality Manager	This has been reviewed by DMT and acknowledge that the team needs a further review of their functions and workload to ensure that they are able to achieve a cost neutral service.	20-Jun-19	76 or more	
20	DoR	General Ledger	There needs to be consistent control over data entry from feeder systems that standardises and controls data input to reduce the need for journals to amend miscoded items. The number of Oracle Fusion codes needs to be reviewed with a view to identifying key codes and removing redundant or unused codes.	17/18	6-Apr-17	31-May-18	Matt Davis - Assistant Director of Finance	Daily reports produced and sent to owners of feeder systems for their checking that totals loaded correctly. Coding to be reviewed as part of a review of reporting hierarchies and will need to be considered in conjunction with BFFC reporting requirements. This will also be considered as part of the wider review to be conducted of the Fusion System by Oracle over the next few weeks.	26-Jun-19	51 to 75	
21	DoR	General Ledger	All journals need proper designation as to the type of journal and its purpose.	18/19	4-Jun-18		Jean Stevenson - Chief Accountant	The significant reduction in the number of journals means there is more clarity as there are less inputters processing journals. An initial review has been conducted by the Technical Accountant which has not identified any significant issues with current practice. A further review will be conducted once the Statement of Accounts issues are resolved.	26-Jun-19	76 or more	

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22	DoR	General Ledger	The number of codes that are being used for one off transactions needs to be reviewed to ensure that this is the most efficient way to record financial information.	18/19	4-Jun-18		Jean Stevenson - Chief Accountant	This review is scheduled to be conducted by the Financial Systems Team as part of the overall review of codes for the introduction of inter company accounting. This was expected to be completed by 1st April 2019, but will slip to the summer of 2019. Further advice on this issue is expected to be provided by Oracle following their review of the Fusion System.	26-Jun-19	51 to 75	
23	DoR	HB Subsidy	It is recommended that: a) backfill for seconded positions needs to be in place earlier. b) consideration is given to the number of contractors in place in key positions within the team. c) a clear plan is put in place for quality checking going forward. This needs to include the identification and reporting of issues relating to individuals to allow them to be addressed in a timely manner.	16/17	17-Sep-17		Sam Wills - Interim Income & Assessment Manager	10% Quality checking remains in place with contractor. Regular training updates provided to staff. Continued use of subsidy expert. Achieved zero subsidy loss in audit of 17/18 claims, external audit of 18/19 has commenced this month.	2-Jul-19	76 or more	
24	All	Health & Safety	In order to share instances of different and best practice(s) it is suggested that the directorate chairs of the health & safety periodically attend and observe other directorates' meeting to see whether specific techniques, formats etc. could be usefully shared between them.	16/17	8-Feb-17	29-Sep-17	H&S Committee Chairs: Resources - Shella Smith Adults - Steve Saunders DEGNS - James Crosbie Central - Peter Sloman	Meetings have temporarily stopped as staff have left and new Chairs of H&S Committees found. To compensate for this H&S Advisors regularly meet with Chairs of the H&S Committees and attend all H&S Committees. Meetings will be commencing in May 2019.	25-Jun-19	51 to 75	
25	DoR	Health & Safety	There needs to be confidence in the integrity of the staff health and safety training data held on I-Trent and that it is accurate and kept up to date so that reliance can be placed upon this. This may involve some further work to achieve this and possibly some prioritisation of resources by Training / HR.	16/17	8-Feb-17	29-Sep-17	L&D - Russell Gabbini	The Organisational and Workforce Development Manager is leading on the training actions. Data cleanse exercise to tie in with other iTrent work. Also Learning Pool dates is being corrected. New CMT target to get all L1 & L2 training completed by Q2 2019. Plus All staff will have to complete an online appraisal (knowledge check) or update session commensurate with their responsibility. If they fail this then they will have to go to repeat the appropriate level of on-line training or attend a classroom course to be recognised as compliant. Knowledge checks for levels 1 and 2 to be released to relevant staff June 2019	25-Jun-19	51 to 75	
26	All	Health & Safety	Once the exercise to cleanse data has been completed, where it has become flagged that staff training is not up to date, then a programme of training to remedy this should be implemented.	16/17	8-Feb-17	29-Sep-17	L&D - Russell Gabbini	The Organisational and Workforce Development Manager is leading on the training actions. Data cleanse exercise has shown that information in iTrent is not accurate. New exercise underway to tie in with other iTrent work. Also Learning Pool dates is being corrected. New CMT target to get all L1 & L2 training completed by Q2 2019. Plus All staff will have to complete an online appraisal (knowledge check) or update session commensurate with their responsibility. If they fail this then they will have to go to repeat the appropriate level of on-line training or attend a classroom course to be recognised as compliant. Knowledge checks for levels 1 and 2 to be released to relevant staff June 2019	25-Jun-19	51 to 75	
27	DoR	Information Governance and Data Protection	The management framework needs to be documented (action plans and ToRs) and aligned with a strategy that identifies the key staff needed to implement and maintain it. This in turn needs approval and incorporation into the reporting framework of CMT who should receive regular reports on progress and any significant issues highlighted in work practices.	16/17	7-Oct-16	9-Apr-18	Chris Brooks - Head of Legal & Democratic Services	Management framework is encompassed in the General Data Protection Regulations project plan. Monthly reports have been to CMT. The last report to CMT went on 24.07.2018	No changes 26.06.19	76 or more	

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28	DoR	Information Governance and Data Protection	All staff identified as being key to a properly managed information governance process should have their roles and responsibilities reflected in their job descriptions.	16/17	7-Oct-16	9-Apr-18	Chris Brooks - Head of Legal & Democratic Services	This is to be actioned. Discussions are in hand with HR to determine whether it is appropriate that the roles and responsibilities to Information Governance are to be added to Job Descriptions. Chris to meet with Shella Smith to discuss.	26.06.19	25 or less	
29	DoR	Information Governance and Data Protection	Information Asset Owners (IAO) need to be formally appointed for each system that processes personal data with responsibility for ensuring that it operates within the policies and procedures governing information security and data protection including ensuring access to data is only by authorised persons.	16/17	07-Oct-16	9-Apr-18	Chris Brooks - Head of Legal & Democratic Services	IAO guide drafted and taken to CMT on 30.04.2019. The report set out who the role of IOA sits with Heads of Service and Assistant Directors unless delegated. Chris emailed all Head of Service and Assistant Directors for nominations. Update report will be going to CMT on 02.07.2019.	26.06.19	25 or less	
30	DACHS/DCEEH	Mosaic Fusion Year end reconciliation audit	Increased emphasis needs to be placed on the importance of ensuring that data held within Mosaic is of an appropriate quality. This includes ensuring that placements are reflected in a timely manner (purchase orders created, amended and closed), so that commitments are accurately reflected and discrepancies and missing invoices can be identified and addressed.	16/17	17-Oct-16	01-Nov-17	Jon Dickinson - Deputy Director of DACHS	Data quality work continues and we are now down to 300 cases to be cleared from the system from 1800. Weekly reports are distributed to managers for data accuracy and ongoing work takes place through our monthly Performance Board.	25-Jun-19	51 to 75	
31	DoR	Mosaic Fusion Year end reconciliation audit	There should be clearly documented policies and procedures for the year end reconciliation and associated accruals process. These should be available to all relevant individuals and reviewed and updated as necessary on a regular basis to reflect current practice.	16/17	17-Oct-16	01-Nov-17	Nick Penny Strategic Business Partner - DACHS	Notes are currently being prepared by the DACHS Finance team and will be signed off by the Strategic Business Partner.	27-Jun-19	76 or more	
32	DoR	Mosaic Fusion Year end reconciliation audit	A lessons learnt review should be conducted post year end which looks at issues encountered with the year-end reconciliation process and associated accruals and provisions. Outcomes from this should then feed into the following year's year-end process. This is particularly pertinent for Adult Services.	16/17	17-Oct-16	01-Nov-17	Nick Penny Strategic Business Partner - DACHS	The reconciliation process has been reviewed at year end, the team are now using the rec's to support budget monitoring and delivery of savings.	27-Jun-19	Complete	
33	DoR	Mosaic Fusion Year end reconciliation audit	Clear and regular in year and year end reconciliations should be performed between Mosaic and Fusion and review of the accruals/prepayment process to encompass the full financial year rather than since the last invoice received need to be conducted.	16/17	17-Oct-16	01-Nov-17	Nick Penny Strategic Business Partner - DACHS	Mosaic to Fusion reconciliations are currently undertaken on a monthly basis to ensure that the council are paying for the correct value of placement costs.	27-Jun-19	Complete	
34	DoR	Overtime	It is recommended that the monthly payroll return be reviewed and consideration given to including the following: <ul style="list-style-type: none"> <li>Employee contracted hours</li> <li>Completed by field</li> <li>How overtime is being paid for</li> <li>Reason for overtime</li> </ul>	16/17	23-Aug-16	28-Sep-17	Shella Smith - Head of HR and OD	As of 1 July 2019, overtime is now claimed through iTrent self-service. It now includes a reason for working overtime	4-Jul-19	Complete	

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35	DACHS	Public Health	The recharge of central establishment costs to the public health grant should be done in a timely fashion and in such a way as those costs are transparent and commensurate with the resources employed by the authority to administer the grant monies.	17/18	29-Sep-17		Andy Stockle - Business Partner and Nick Penny - Strategic Business Partner	Corporate recharges have historically been treated 'below the line' and not charged to Public Health. Public Health has a credit budget to reflect this practice. Work is ongoing which is expected to result in budgets for these being put against cost-centres across the Council. This will result in PH no longer having a credit budget.	27-Jun-19	76 or more	
36	DEGNS	Right to Buy	A copy of the Right to Buy Handbook should be available on the new RBC website. Right to Buy policies should be reviewed on a regular basis to ensure that they are still fit for purpose.	16/17	19-Jul-16		Sam Bainbrigg - RTB Team Leader	The Right to Buy handbook is available on the Councils website as is the Right to Buy Policy. The policy will be reviewed at least every two years to ensure it is still fit for purpose	9-Jul-19	Complete	
37	DEGNS	Right to Buy	Revised date: A number of improvements are required to ensure payments are fully accounted for:-  * A copy of the RTB Offer and any sale revisions that confirm the final sale price should be forwarded to Finance. * In conjunction with the RTB Team and Legal, Finance should complete a certified periodic reconciliation between payments due, those received and the accounts on Fusion. The RTB application number should be recorded on Fusion to support the address of the property.	18/19	11-Jun-18		Jean Stevenson - Chief Accountant/ Sam Bainbrigg - RTB Team Leader	Process in place for RTB offers and sale revisions confirming the sale price to be sent to finance. Since process was introduced there have not been many sales (3 to 4 per quarter). Checks are performed by Finance on a regular basis as part of the government returns for RTB receipt pooling, no issues have been identified. (JS)	26-Jun-19	Complete	
38	DEGNS	S106	The roles and separations of duties for the Policy Team and Administration Team need to be reviewed to ensure there is inclusion and oversight for the full monitoring of all S106 monies.	16/17	30-Sep-16	14-Jul-17	Mark Worringham - Planning Policy Team Leader	In addition to new written procedures and staff training, the Planning service has now implemented a bespoke recording and monitoring system (Exacom) that coherently addresses the main control requirements for Section 106 processes. A regular or complete reconciliation between the respective record systems in Planning used to identify, track and manage S106 amounts and financial systems that record S106 amounts has not been possible until recently. This is mainly because of resource issues in Finance. A report from Finance was received in January 2019, and reconciliation has been carried out between Planning and Finance records. There remain some inconsistencies, most of which have been accounted for, but outstanding issues being followed up. A finance report to enable reconciliation has been requested on a more regular basis, but at June 2019, the most recent report received was January 2019..	4-Jul-19	76 or more	

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39	DEGNS	S106	<p>The methodology for recording, collecting and monitoring the payment status of S106 monies need to improved urgently. In particular:</p> <p>a. It is strongly recommended the corporate debtor system should be used for the monitoring and collection of all S106 monies. Each sales requisition should be authorised by the PSM. In particular there is a need to establish clear separation of duties between the instigation, recovery and the monitoring of monies.</p> <p>b. The obligation index increases and revised amounts should always be recorded on Acumen.</p> <p>c. Provisional target dates should be established to monitor the status of payment triggers and for prompting the sales requisition.</p> <p>d. A monitoring procedure needs to be produced for reviewing the status of triggers and payments (who, how, when etc.).</p> <p>e. Oracle Fusion codes should be recorded on Acumen, and a record of receipts should also be recorded. Obligations, finance receipts and balances on Oracle Fusion balances should be regularly reconciled and reviewed by management. Evidence of reconciliations should be retained for an audit trail.</p>	16/17	30-Sep-16	14-Jul-17	Mark Worringham - Planning Policy Team Leader	The Exacom System and updated procedures are now in place and are used in operations. This provides an appropriate methodology for recording, collecting and monitoring the payment status of S106 monies. After discussions with Finance it was agreed by the Assistant Director of Finance that the corporate Academy system for raising invoices was not appropriate for the purposes of raising and monitoring S106 invoices' It offers no advantages over the use of the facilities and reporting functions of the Exacom system . Indexation and revised amounts area recorded in Exacom. Trigger dates are a function of Exacom. Monitoring of triggers and payments is being undertaken by the Planning Policy Team Leader. Oracle Fusion codes are recorded on Exacom and receipts/ transaction numbers are also recorded on the system. Attempts have been made to reconcile planning records with Fusion, but there have been challenges in obtaining data in a timely manner because of resource issues in Finance. A Finance report was received in January 2019, and reconciliation is being carried out, and reports are requested on a regular basis to enable reconciliation. However, none has been received from Finance since January 19. A review to the procedure is being carried out, and is expected to be finished shortly.	4-Jul-19	76 or more	
40	DOR	Use of Cash Vouchers & Cash Accounts	<p>Documented procedures should be produced to:-</p> <p>a) stipulate the purpose of petty cash accounts e.g. what is considered to be appropriate expenditure, and what is not</p> <p>b) specify the recording, reconciliation and reporting requirements including the transfer of details on to Oracle Fusion</p> <p>c) define the control requirements for the safeguarding of cash and vouchers.</p>	16/17	2-Nov-16	14-Jul-17	Matt Davis - Assistant Director of Finance Christopher Beauchamp - Accounts Payable Manager	12 petty cash/voucher floats now closed. Remaining petty cash/voucher schemes to be closed - completion 31/08/19	26-Jun-19	51 to 75	
41	DOR	Use of Cash Vouchers & Cash Accounts	<p>Controls need to be introduced within the APT to confirm the completeness and accuracy of the floats in circulation and to ensure that petty cash claims are appropriately authorised. This should involve:-</p> <p>a) Conducting an annual review to ensure the records are correct and up to date.</p> <p>b) Introducing a system for recording the issue, transfer and return of floats. Where floats are transferred between officers a copy of the transfer note must be forwarded to the APT.</p> <p>c) Introducing a check control whereby the APT confirms the accuracy of the float balance and of the authorisation details each time a claim is made.</p>	16/17	2-Nov-16	14-Jul-17	Matt Davis - Assistant Director of Finance Christopher Beauchamp - Accounts Payable Manager	12 petty cash/voucher floats now closed. Write off will be required as the floats starting balances not recorded on all floats, all floats have also been processed on the post office account with no details and the account is also used to paid post office invoices. New accounts to be set up in Fusion for any remaining floats and a balance agreed with teams.	26-Jun-19	51 to 75	
42	DOR	Use of Cash Vouchers & Cash Accounts	Finance should consider whether prepaid cards could be better used to control petty cash expenditure. Or alternatively departments / services could be encouraged to use Visa purchase cards instead of petty cash	16/17	2-Nov-16	14-Jul-17	Matt Davis - Assistant Director of Finance Christopher Beauchamp - Accounts Payable Manager	Prepaid and Visa cards now being used throughout the council instead of petty cash in most areas.	26-Jun-19	Complete	

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43	DEGNS	Waste Operations	Trade waste contracts should contain accurate details of the number of bins and frequency of collection. This should agree with records in Flare. Care needs to be taken to ensure that charges made for trade waste as a minimum cover the costs of providing the service.	16/17	12-Dec-16	24-May-17	Michelle Crick - Waste Services Manager/ David Moore - Neighbourhood Services Manager	A waste management software system has been purchased and a soft roll out for green waste has been completed. Roll out to all crews to take place at end April and then the Trade Waste module will be implemented. The Whitespace system is in place and has been successfully tested for Green Waste and for Domestic waste with real time data being gathered. The system will go live at the call centre on 22nd July subject to the missed bins coordination with the Firmstep system being completed by the web team. A demonstration of the trade waste element of the system has been received and work is beginning to populate this system with a view to going live in September.	28-Jun-19	76 or more	
44	DoR	Additional Payments	There should be a clear policy for each type of allowance and additional payment. These should be reviewed on a regular basis and updated as necessary.  All additional payments should be made in accordance with the relevant policy and be consistent across teams, departments and directorates and adhered to in every instance.  Policies and procedures should be publicised and promoted to relevant staff and managers and be available on Iris.	18/19	31-Mar-19		Shella Smith - Head of HR and Organisational Development for all new payments HR Partners for existing payments Roger Morris Annette Paterson Kirsty Bennett Denise Burston	A review of all employment policies is already underway. The revised policies will need to be consulted on or negotiated with the recognised trade unions (as appropriate) and approved by Personnel Committee. The review is due for completion by March 2020. The policies covered in this audit will be prioritised.	25-Jun-19	26 to 50	
45	DoR / DEGNS	Network Security (ICT)	Full visibility of the transport sections ICT needs to be established to ensure that a consistent corporate standard for network security is applied	18/19	18-Oct-18		Andrew Withey - Acting Head of Customer Care and Transformation Cris Butler - Strategic Transport Programme Manager	Officers are in the process of engaging with the Council's IT teams in order to progress a programme of actions to apply the corporate network requirements to the existing externally supported Transport systems. The next step is to include the transport network in scheduled penetration testing exercise to identify any potential vulnerabilities with follow on mitigation plan. (The transport network is completely separate from the main corporate network so any issues are limited to transport systems). Advice, support and supplier engagement has been provided to Transport who will commission this. The ICT delivery model for the Council will be reviewed following implementation of the senior management reorganisation and transport IT will be included within the scope of this to determine ownership, management and oversight arrangements for the future. Meanwhile the transport network is secure, with contracts in place with external system providers who cover penetration testing of that network separately. Audit have now confirmed the transport systems do not pose a risk to the corporate network. However, as a part of the corporate restructure, officers are tasked with reviewing how transport systems are currently managed and supported, with a view to transferring them onto the corporate network as soon as practicable.	28-Jun-19	51 to 75	
46	DoR	Network Security (ICT)	Council make Cyber Security and Cyber awareness training mandatory for staff	18/19	18-Oct-18		Russell Gabbini - Organisational and Workforce Development Manager	Work is currently underway to strengthen and expand cyber security and cyber awareness training as an integral part of the ICT Information Security training that has been made mandatory for all new staff. Cyber Security and Cyber Awareness modules have been made available for all staff. Whilst these remain optional reminders and prompts have been issued stressing importance of the training and encouraging staff to complete it. Demonstrations of Cyber Security Solutions have been undertaken and quotations obtained. Further free training options are under review following recommendations from officer attendance at the National Pathfinder Cyber Security Conferences, which includes Board and Councillor awareness Training from Regional Serco Police units, and Board level Cyber Awareness material from the National Cyber Security Centre.	28-Jun-19	51 to 75	



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47	DoR	Network Security (ICT)	The council's disciplinary procedures are amended to reflect the seriousness of not ensuring that laptops are properly patched.	18/19	18-Oct-18		John Barnfield - ICT Technology and Services Manager	The Council's existing ICT Policies already clearly link to the Council's HR Disciplinary Procedures / Code of Conduct and Member Code of Conduct processes. The ICT Policy Statement and ICT Use and Information Policy make clear that failure to adhere to policy may result in disciplinary action. The ICT Policy and Golden Rules have been amended to reinforce need to reload desktops and will be published on the new intranet. All Policies have been reviewed and updated where necessary for 2019/20. Papers have been produced for CMT and Policy Committee to now formally approve these Policy changes. These are initially awaiting CMT approval before onwards approval to Policy Committee. Meanwhile, based on the recommendations being issue by the National Cyber Security Pathfinder conferences, reminder emails are being issued to Staff to remind them of the increasing Cyber security threats and the actions they need to be taking to manage risks in this area including reloading laptops regularly.	28-Jun-19	76 or more	
48	DoR	Network Security (ICT)	There should be regular threat monitoring reports produced by Northgate that include potential hacking incidents and virus software activation to contain threats to enable RBC to take preventative action on staff activity if appropriate.	18/19	19-Sep-18		John Barnfield - ICT Technology and Services Manager	External e-mail and web URL scanning, external firewall protection, server anti-virus and desktop anti-virus software is in place and provides continuous automated threat protection. To implement dashboard style Proactive Event Monitoring and Alerting will require investment in additional products. A joint Bid with St Albans, Assuria (Supplier), Reading University, Cabinet Office, Information Age, E-mpirical, MSG Limited, for the delivery of a scalable SOC/SIEM solution for 10-15 Local Authorities on a Franchise style model, is being presented to the LGA for potential Phase 2 Security funding. This would bring additional an benefit of a rotation of security skills into the market. Further interest of joining the Pilot is being explored with other Berkshire Unitaries. Further exploration of funding sources if the LGA bid is unsuccessful are also being explored. We are hopeful of interest as this is an area of need across many Local Authorities that is recognised by the LGA and National Cyber Security Centre.	28-Jun-19	26 to 50	
49	DEGNS	Bus Subsidy Grant 17/18	Corporate Finance in conjunction with Services should ensure the accounts for funds received under the auspice of a grant determination are produced for certification on a timely basis.	18/19	7-Nov-18		Richard Johnson Strategic Business Partner	The Finance team will review all DEGNS revenue Grant and work with relevant individuals within the service to ensure that where they require an audit that the process is monitored closely and managed. We have a DEGNS grant file and will ensure we identify any grants with conditions/returns	2-Jul-19	51 to 75	
50	DEGNS	Integrated Transport Grant 17/18	Corporate Finance in conjunction with Services should ensure the accounts for funds received under the auspice of a grant determination are produced for certification on a timely basis.	18/19	7-Nov-18		Anna Barefoot [Capital Accountant] & Strategic Business Partner	Initial meetings between finance and service have taken place to discuss IA requirements. A deadline of 31/07/19 has been agreed with IA for all paperwork to be provided. The service are finalising the required working papers week beginning 1st July	28-Jun-19	26 to 50	
51	DACHS	Continuing Healthcare	It is recommended that the Head of Service works with CCG partners to establish and agree a locally set of documented specifications and standards that detail what the joint arrangements for the procedures and timescales for the application, assessment and recording of CHC cases should be. Once agreed these should be signed off by both parties and all relevant staff advised accordingly.	18/19	27-Nov-18		Jo Purser- Locality Manager	Following the implementation of the revised CHC Framework in October 2018, the Locality Manager will work with the CCG and partners to review the current Berkshire wide joint policy for CHC. This work is ongoing along with other partnership working regarding discharge to assess for CHC.	20-Jun-19	51 to 75	

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52	DACHS	Continuing Healthcare	Ongoing efforts to further research and understand the disparity rates in local CHC funding should be fully and consistently backed by senior management in order that the reasons can be properly understood, and any changes made. Resources to do this may have to be found from existing budgets but the work should have senior officer support and the outcomes should be shared with other parties if necessary. Any system changes made as a consequence should be regularly monitored to establish their future effect.	18/19	27-Nov-18		Jo Purser- Locality Manager	NHS England are responsible for auditing the application of the CHC framework. The Local Authority can refer to NHS England if there are specific concerns around the implementation of the framework locally but not research how the framework is being implemented across other areas. Senior management are focusing on ensuring that applications have robust evidence to support individuals to achieve CHC funding. Whilst we accept that the current level of success in this area remains low there are required actions for Reading to implement before highlighting this with NHS England. There has been an increase in the number of individuals agreed at MDT's and panel for CHC funding, through increased staff knowledge and confidence	20-Jun-19	Complete	
53	CRO	Employee Gifts, Hospitality and Declarations of Interest	It is recommended that the existing guidance for Gifts, Hospitality and Declarations of Interests should be reviewed for consistency, ambiguity and clarity. In particular a single Gifts and Hospitality Policy introduced which is linked to any further detailed advice and standards that employees must adhere to, such as the Code of Conduct. The policy should include examples of Gifts and Hospitality that can be accepted or rejected, as before, as well as guidance about how to treat such offers, how offers should be recorded, when and who to send the information to and who to contact for further advice.	18/19	18-Dec-18		Chris Brooks, AD of Legal and Democratic Services Shella Smith, AD of HR and Organisational Development	A revised Gifts and Hospitality Policy has been drafted and will be presented to CMT for approval in July 2019	4-Jul-19	26 to 50	
54	CRO	Employee Gifts, Hospitality and Declarations of Interest	To fully demonstrate commitment to the Nolan Principles it is recommended that an annual declaration of returns is completed by all staff members for individual Gifts, Hospitality or new Declarations of Interest forms. Furthermore, as per CMT's mandate in November 2017, it should be determined whether specific service areas should be targeted to ensure full and complete declarations are completed regularly. The Head of HR and Organisational Development will need how best to achieve this i.e. by using NetConsent or potentially via i-Trent.	18/19	18-Dec-18		Chris Brooks, Head of Legal and Democratic Services Shella Smith, Head of HR and Organisational Development	We believe that an annual reminder should be sent to employees to confirm that they should be aware of the policy and that declarations should be made in accordance with it. This should relate to offers of gifts and hospitality that are both accepted and declined and all declarations of interest. Prior to the implementation of an automated system, we will explore alternative means for achieving this requirement. Using iTrent for this purpose can be explored after phase 1 and 2 of the project to improve its functionality has been completed. This is likely to be early in 2020.	4-Jul-19	51 to 75	
55	CRO	Employee Gifts, Hospitality and Declarations of Interest	It is recommended that all offers of gifts and hospitality and declarations of interests are recorded on a corporate system (potentially on i-Trent when the facility becomes available) and for a summary report on reported activity to be reported by the Head of HR and Organisational Development to CMT each year.	18/19	18-Dec-18		Shella Smith, AD of HR and Organisational Development	Agreed. This will be explored after phase 1 and 2 of the project to improve iTrent functionality and roll out self-service has been completed. This is likely to be early in 2020.	25-Jun-19	51 to 75	
56	CRO	Employee Gifts, Hospitality and Declarations of Interest	It is recommended that the option potentially being considered to use i-Trent to record all declarations of interests, gifts and hospitality is supported by Audit and should be progressed as soon as is practicable.	18/19	18-Dec-18		Shella Smith, AD of HR and Organisational Development	Agreed. This will be considered once the iTrent self service roll-out is complete, in March 2020	25-Jun-19	25 or less	
57	DEGNS	Commercial leases	Consideration should be given to bringing together (centralising) the management and administration of (non-housing) properties under one team. This could include acquisition, disposal as well as lease and income management. Any such proposal would have to be financially variable and appropriately resourced.	18/19	05-Dec-18		Deputy Director, Regeneration & Assets	This recommendation is scheduled for consideration and discussion with the incoming Director of DEGNS, with feedback on the way forward anticipated in July 2019	9-Jul-19	25 or less	

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58	DEGNS	Commercial leases	There is a need for a corporate integrated property asset system that is fully compliant with accounting requirements. This is something we would encourage, in order to reduce staff time spent managing the spreadsheet and ensure greater accuracy in (financial) reporting.	18/19	05-Dec-18		Deputy Director, Regeneration & Assets Matthew Davies, Assistant Director of Finance	A software solution has been purchased from CIPFA, being the only fully International Financial Reporting Systems (IFRS) compliant product found available. Implementation is scheduled to be completed as part of 2018/19 accounts closure process and will be used as the council's holistic financial asset register from that point onwards	9-Jul-19	51 to 75	
59	DoR	Debtors - follow up review	<i>New recommendation</i>  The procedures and processes for managing and monitoring sundry debt need to be strengthened to actively reduce and prevent the current level of debt. The following areas should be considered:-  * distribution of aged debtors report should be specific to the service.  * all services should promote payment at the point of supply of service etc.  * arrears should be analysed to identify services and reasons for arrears so that a targeted approach can be instigated.  * services should be required to provide an account of the reasons for their arrears alongside the reasons for their budget variance status as part of the regular budget monitoring process/es.	18/19	29/01/2019		Chris Beauchamp (Accounts Payable/Receivable Manager)	New processes and procedures for managing the sundry to be introduced when Accounts Receivable move to Oracle Fusion this will specific reports to services and report to enable the collection teams to be more efficient - Project delay until the 01/09/19	26-Jun-19	25 or less	
60	DoR	Business Rates	The Property Inspector should update the Local Taxation Inspector and Inspections procedure documents.	18/19	16/05/2019		Samantha Wills, Recovery & Control Team Leader	The current local taxation inspector has commenced creating procedure documents to ensure we have no single point of failure and ensures we have succession planning should there be changes to existing staff.	2-Jul-19	51 to 75	
61	DoR	Business Rates	The Control Team should set out as policy a requirement to retain evidence of authorisation and review in a location that will be accessible in the event of staff change.	18/19	16/05/2019		Samantha Wills, Recovery & Control Team Leader	Procedures will be reviewed to ensure they are up to date and contain the elements highlighted in the audit report.	2-Jul-19	25 or less	
62	DoR	Business Rates	The Control Team should consider the feasibility of obtaining the data underlying the RBC Academy Balance Report and the VOA Schedule of Alterations Report in order to periodically review the data for potential errors and/or inconsistency.	18/19	16/05/2019		Samantha Wills, Recovery & Control Team Leader	We are reviewing the feasibility of full VOA/RBC reconciliation	2-Jul-19	25 or less	
63	DoR	Business Rates	The Property Inspector should consider the feasibility of obtaining the data underlying the RBC Band Analysis Report and the VOA Banding Totals Report in order to periodically review the data for potential errors and/or inconsistency.	18/19	16/05/2019		Samantha Wills, Recovery & Control Team Leader	We are reviewing the feasibility of full VOA/RBC reconciliation	2-Jul-19	25 or less	
64	DoR	Business Rates	The Control Team should update the procedure documents for the performance of daily and monthly reconciliations in order to set out how the reconciliations will be verified and the requirement to retain evidence of review in a location that will be accessible in the event of staff change.	18/19	16/05/2019		Samantha Wills, Recovery & Control Team Leader	Procedures will be reviewed to ensure they are up to date and contain the elements highlighted in the audit report.	2-Jul-19	25 or less	
65	DoR	AP Creditors	Sign off and complete recommendations from previous audit report concerning ensuring Supplier database reflects best procurement policy.	18/19	05/04/2019		Matt Davis, Assistant Director of Finance  Christopher Beauchamp, Accounts Payable Manager	Working with procurement and the new role to ensure the audit recommendations are completed.	8-Jul-19	25 or less	

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
66	DoR	AP Creditors	Issues around the supplier portal need to be resolved and the audit trail to supporting documentation reinstated .	18/19	05/04/2019		Matt Davis, Assistant Director of Finance Christopher Beauchamp, Accounts Payable Manager	Big progress has been made in the closing down the older purchase order to enable full roll out of the supplier portal	8-Jul-19	25 or less	
67	DoR	AP Creditors	Consideration should be given to bringing the supplier set up function in house and subject to documented processes.	18/19	05/04/2019		Matt Davis, Assistant Director of Finance Christopher Beauchamp, Accounts Payable Manager	Job specification completed and procurement are currently recruiting for this role	8-Jul-19	26 to 50	
68	DoR	Data Storage	RBC urgently needs to establish proper governance processes in respect of data creation and storage as it is currently at a high risk of breaching GDPR requirements in respect of only storing data needed for processing.	18/19	05/04/2019		Chris Brooks, SIRO Assistant Director for Legal Services and Governance Jo Barker Interim Assistant Director - Digital & Transformation	Papers have been taken to CMT setting out the assignment of Information Asset Owners. The Council has just undertaken an ISO27001 Information Gap Analysis and those findings and recommendations will further inform remedial work.	04-Jul-19	25 or less	
69	DoR	Data Storage	A corporate programme to address the creation and storage of data needs to be created to ensure that going forward data is stored in a structured manner that facilitates easy recovery and reduces the cost of storage. The objective should be to remove, where possible, all "personal" data storage and integrate data creation and storage with business operations. Data that needs storing should be kept in corporate storage spaces that encourage a structured approach which can be managed by date or subject according to statutory requirements.	18/19	05/04/2019		Jo Barker, Interim Assistant Director - Digital & Transformation	A Formal ISO27001 Information Governance Gap Analysis has been run with IT Governance and those findings and recommendations will help inform further remedial action. Discussions have started to establish formal Information Governance arrangements sponsored outside of ICT.	04-Jul-19	25 or less	
70	DoR	Data Storage	Existing data that is being stored needs review with an ambition of deleting all non essential data before transitioning to Office 365 and cloud based operation.	18/19	05/04/2019		Jo Barker, Interim Assistant Director - Digital & Transformation	A formal Office 365 Project has been commissioned with Northgate and their Gold Partner Risual. Workshops have been held which will now go forwards to inform the data migration strategy/. Advice has also been sought from other Berkshire Unitary Authorities to learn from their migration experiences and recommendations.	04-Jul-19	25 or less	
71	DoR	Data Storage	A decision needs to be taken regarding the future of the Mailmeter product. Microsoft will have products available that will match what it does for email access so an option review needs to establish whether to retain the software.	18/19	05/04/2019		Jo Barker, Interim Assistant Director - Digital & Transformation	A corporate instruction has been given to cull Mailmeter data to 3 years. In order to do this an additional Waterford's Product has been purchase (ComplyKey) and installed on an upgraded server needed to execute the cull. This server is currently processing a backlog of email which built up through the upgrade process which once fully caught up the cull to 3 years can be undertaken. This will manage the GDPR Data Protection Risk associated with held email, and then its future can be determined as part of the O365 Microsoft Strategy. The project for O365 is being taken forward with Northgate and their Microsoft gold Partner Risual, with their recommendations feeding into to a further decision process.	04-Jul-19	25 or less	

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
72	DEGNS	Homes for Reading	The HfR Board should consider whether the current system used to document / record EMT meetings is adequate and provides a sufficient trail or whether any improvements need to be made.	18/19	12/04/2019		Mark Green - MD HfR	<p>EMT has delegated authorities to undertake day to day operations of the company. The Decision Log is regularly reported to Board and at each meeting key issues that have arisen during the period since the last meeting and items that may require consideration in the future are discussed.</p> <p>EMT meetings do have an agenda set, and as appropriate to the nature of the discussions notes made and key decisions record. It is not considered appropriate for all discussions to be minuted in a formal manner. HFR does have an activity log that captures key work streams that is regularly update to capture progress of key items.</p> <p>The recommendations will be considered by EMT and discussed with Board to determine if and how improvements can be made going forward.</p>	21-Jun-19	51 to 75	
73	DEGNS	Homes for Reading	In addition to the existing set of declarations of interest(s) it is recommended that these are extended to all other relevant parties, including the Managing Director of HfR.	18/19	12/04/2019		Mark Green - MD HfR	There are formal declaration of interests for all Directors. All Director declarations are reviewed and updated on an annual basis and detail record of the declaration register. The most recent update of declarations was undertaken in September 2018. The MD was appointed as a Director of the company at the Board meeting on the 13th December 2018. The appointment letter and declaration have since been produced and completed.	21-Jun-19	Complete	
74	DEGNS	Homes for Reading	The HfR Managing Director's recommendation to establish a Shareholder Advisory Group or equivalent is supported and it is recommended that this is established as soon as practicable.	18/19	12/04/2019		Mark Green - MD HfR	<p>HfR has agreed the structure of the Shareholder Advisory Group and the proposals identify key personnel to be appointed by RBC. Presently, RBC is undergoing some personnel changes and once people are in post, it is proposed that the SAG is formed.</p> <p>Alongside the formation of the SAG, HFR has also agreed to implement changes to the composition of the Board. Some of the changes proposed, will see current Councillor Directors transition to the SAG.</p> <p>At the Board meeting on the 20th June, HFR's Board agreed to review the structure with the Shareholder.</p> <p>As soon as the approach is agreed by the Shareholder and HFR, it is HFR's intention to complete the changes to the Board and formalise the SAG with RBC.</p>	21-Jun-19	51 to 75	

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
75	DEGNS	Homes for Reading	It is recommended that Homes for Reading establishes a standard proforma for the documentation of its systems and procedures, including: a) ensuring these are reviewed and where necessary, updated at regular intervals; b) ensuring that the date of review / update is clearly identified; and c) that these procedures are reviewed, agreed and approved by an appropriate person.	18/19	12/04/2019		Mark Green - MD HfR	HfR has implemented a standard format for procedures, including version control and review processes for key company policy including Health and Safety, Complaints and Fair Wear and Tear, Financial authorisation, Signatories etc.  HfR has also implemented key process procedures to aid the flow of activity and to control decision making via gateway authorisations. This processes are available to all service providers.  Whilst version control is in place, it is agreed by HFR to implement timescales governing the frequency of review to ensure its processes remain current.  Many of HFR's service providers do not have policies in place governing the process / activity undertaken on behalf of HFR. HFR has previously requested all Service Providers to develop this and this remains an area of activity to be progressed. As part of HFR's review of it's SLAs, greater emphasis will be placed on the appropriateness of systems and controls used by contractors.	21-Jun-19	51 to 75	
76	DEGNS	Homes for Reading	In order to help ensure Homes for Reading is fully aware of its current (and future) risks it is recommended that the Risk Register is updated more regularly and then reviewed and agreed (by the EMT and then) by the Board.	18/19	12/04/2019		Mark Green - MD HfR	The risk register is a standing item on the Board agenda and is regularly reviewed.	21-Jun-19	Complete	
77	DEGNS	Homes for Reading	Although recently agreed by the Board, the outcomes of the recent review of governance need to be reviewed and agreed between Homes for Reading and the Council, if necessary.	18/19	12/04/2019		Mark Green - MD HfR	See 74 above. The new arrangements are to be reviewed by the Shareholder and HfR following feedback at the Board meeting on 20th June 19.	21-Jun-19	51 to 75	
78	DEGNS	Homes for Reading	Housing and Homes for Reading need to resolve the issue of the reporting of rent accounts for HfR properties and without it being an intensive manual exercise.	18/19	12/04/2019		Zelda Woffle Housing Operations Manager	3 reports set up in OHMs to manage this process. OHMs is not ideal for HFR due to the way the debit is raised, adjustments made and the way payments/housing benefit is received. Changes to OHMS now give a separate financial statement, which has all the information required except how this is broken down by property and so some manual adjustments still required.  HFR has completed a reconciliation of finance as part of the year end process for 18/19. HfR continues to review the position and has the option to separately procure its own asset management software to collect management information directly.	28-Jun-19	51 to 75	
79	DEGNS	Homes for Reading	Housing should consider repeating the local market testing exercise for the supply of goods and services to ensure that RBC procurement guidelines are being met and best value is achieved.	18/19	12/04/2019		Zelda Woffle Housing Operations Manager	HfR has raised this issue with all its Service Providers. HFR spend with suppliers is likely to reduce in 19/20 as a result of its revised operating approach. HFR is seeking to monitor the spend on white goods and cleaning etc., and will agree at Board whether to procure suppliers directly or ask service providers to update existing contract arrangements.	28-Jun-19	51 to 75	

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
80	DEGNS	Homes for Reading	In line with the Homes for Reading MD's plan, it is recommended that existing service level agreements with Finance and other in-house suppliers are reviewed, negotiated where necessary and then agreed between the relevant parties. Thereafter a process of monitoring of the agreement(s) needs to be implemented. Where the levels of performance and service are not adequate there should be an established process for these to be resolved.	18/19	12/04/2019		Mark Green - MD HfR	The lack of performance reporting received from service providers in 18/19 has been increasingly frustrating for HFR. This is a matter that has been discussed at Board and in certain instances the Board has escalated matters with the Shareholder.  A revised SLA is currently being drafted including a new set of KPI's to manage performance under the contract for 19/20. As part of the SLA, it is incumbent upon the contractor to ensure timely information is reported. The Board resolved at its meeting on 20/6/19 to host a workshop with the Shareholder to look at the scope of services and the KPI measures with a view to taking a revised proposal back to Board for approval at its next meeting.	21-Jun-19	51 to 75	
81	DACHS	Direct Payments - follow up	It is recommended that a register or summary record of all policies, procedures and letter templates is introduced to ensure these remain up to date. This register should also include confirmation that appropriate management approval has been obtained and the date of the next annual review is recorded, with each document updated accordingly to reflect this.	18/19	02/04/2019		Stephen Saunders, Principal Personal Budget Support Officer	This action is now complete and the audit recommendation is in place.	28-Jun-19	Complete	
82	DACHS	Direct Payments - follow up	The service needs to have up to date assurance about the requirement(s) governing a Personal Assistant being able to work in the same household as a child, and in particular whether a DBS check should be undertaken in compliance with legislation, such as the Safeguarding Vulnerable Groups Act 2006.	18/19	02/04/2019		Stephen Saunders, Principal Personal Budget Support Officer	The recommendation is now being promoted with all the recipients of a direct payment. The legal responsibility is with those in receipt of the payment and making care arrangements as an employer. The remaining task is for this decision to achieve formal sign off by DMT and this is programmed in for early July. The documentation and guidance will then be updated to reflect this.	28-Jun-19	76 or more	
83	DACHS	Direct Payments - follow up	In order to demonstrate and tighten controls over the use of public funds it is recommended, to improve the monitoring of pre-paid cards, that a verified list of suppliers and account numbers is used to be quickly checked, regularly updated and used to substantiate service users' pre-paid card expenditure.	18/19	02/04/2019		Stephen Saunders, Principal Personal Budget Support Officer	Not complete as needs support from finance colleagues to produce verified list and not been available resource to complete. Plans to complete work in July.	28-Jun-19	26 to 50	
84	DACHS	Direct Payments - follow up	In order to improve the monitoring of pre-paid cards it is recommended that the PBST requests a monthly report from Allpay that provides a statement of all services users' expenditure information (Supplier, account number, amount, date of transaction), which can be used to quickly verify account numbers and suppliers on the statement by way of a look up formulae in excel and for any exceptions to be further investigated.	18/19	02/04/2019		Stephen Saunders, Principal Personal Budget Support Officer	The request has been raised with supplier Allpay. There is a similar report type available but does not fully meet the recommendation so the request is in development with Allpay to fully achieve.	28-Jun-19	51 to 75	
85	DACHS	Direct Payments - follow up	To assist with the current back log of monitoring reviews, it is recommended that alternative monitoring strategies are considered. For example DPB service users could be split into different review periods, with those with the longest outstanding reviews allocated to the first review periods with reminder letters being sent 2 months prior to the review month so that the supporting documents are received the month before, giving the PBST sufficient time to ensure the required documents are received on time for the review to be carried out. The PBST should establish a target by which the backlog of reviews should be cleared within a certain date and then creating a set routine for the team and service users in the future. It is also recommended that PBST performance is monitored by senior management and included as part of the DMT's regular review of performance management.	18/19	02/04/2019		Stephen Saunders, Principal Personal Budget Support Officer	The team have been benchmarking their processes against other better performing local authorities to better understand their matrixes and methodology. Work now underway to include these into a new operational procedure for the team. This will be complete by mid July and shared with audit to ensure that it meets with the requirement. Performance stats for the team have now been developed and are discussed each month at the DACHS performance surgery which is chaired by the Director / and or Deputy Director. This has broadened the knowledge of this target across all managers. Recruitment has been successful to all vacant posts and the team will be fully staffed by August. The required resource to address the backlog has been agreed and proposals made as to future requirements.	28-Jun-19	51 to 75	

Rec No.	Dir	Audit Title	Recommendation	Rec Yr.	Original Audit Completion Date	1st Follow-up Date	Responsible Officer	Responsible Officer Latest Update	Updated on (date)	Status (% Complete)	Overall Status
86	DACHS	Direct Payments - follow up	Greater care should be taken by the PBST to ensure necessary receipts, records and documents are sought to support service users' direct payment expenditure.	18/19	02/04/2019		Stephen Saunders, Principal Personal Budget Support Officer	The guidance and literature issued to all recipients has been reviewed in order to make that expectation clearer. It is already stated in the agreement that this is a requirement.	28-Jun-19	76 or more	
87	DACHS	Direct Payments - follow up	Restrictions on the pre-paid card management site should be considered so that the same officers cannot, when completing payments to recoup excess funds, add a new (possibly fraudulent) payee or amend payee data on the site without approval.	18/19	02/04/2019		Stephen Saunders, Principal Personal Budget Support Officer	Allpay have been asked what the authorisation options are and no such facility or provision is available or possible within the system. Now that we understand it is not available we are working on making a local policy and procedure update. We are also reviewing the existing declaration of interest protocol to make sure that this is sufficiently covered by the code of conduct policy.	28-Jun-19	76 or more	
									<b>Status</b>		
									25 or less	15	
									26 to 50	6	
									51 to 75	29	
									76 or more	20	
									Complete	17	
									Total	87	
									100		



## READING BOROUGH COUNCIL

### EXECUTIVE DIRECTOR OF RESOURCES

<b>TO:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>		
<b>DATE:</b>	<b>23 JULY 2019</b>		
<b>TITLE:</b>	<b>FINAL ACCOUNTS UPDATE</b>		
<b>LEAD COUNCILLOR:</b>	<b>COUNCILLOR EMBERSON</b>	<b>PORTFOLIO:</b>	<b>CORPORATE AND CONSUMER SERVICES</b>
<b>SERVICE:</b>	<b>FINANCE</b>	<b>WARDS:</b>	<b>BOROUGHWIDE</b>
<b>LEAD OFFICER:</b>	<b>MATTHEW DAVIS</b>	<b>TEL:</b>	
<b>JOB TITLE:</b>	<b>ASSISTANT DIRECTOR OF FINANCE</b>	<b>E-MAIL:</b>	<b>Matthew.Davis@reading.gov.uk</b>

#### 1. EXECUTIVE SUMMARY

- 1.1 This report updates the Committee on progress with the completion of the Council's Final Accounts for 2016/17, 2017/18 and 2018/19.
- 1.2 At its meeting on 16th April the Committee delegated authority to the Chair of the Audit and Governance Committee to sign off the Council's 2016/17 accounts following consultation with the Council's S151 Officer. Those accounts will be signed off prior to this meeting.
- 1.3 EY, our external auditors will be presenting their 2016/17 Audit Results Report as a separate item on this agenda
- 1.4 The 2017/18 draft accounts are in the final stages of being completed and it is anticipated they will have been handed to the Council's external auditors; Ernst & Young (EY), by the date of this meeting and that the formal period of public inspection will begin week commencing 29<sup>th</sup> July 2019.
- 1.5 Officers will turn to completing the 2018/19 accounts once the 2017/18 accounts are completed. At this stage it is anticipated the 2018/19 draft accounts will be with EY and available for public inspection by early September 2019.

#### 2. RECOMMENDED ACTION

- 2.1 To note that the 2016/17 accounts have now been signed off by the Council's external auditors and that the 2017/18 accounts will be available for the statutory 30 day public inspection period week commencing 29<sup>th</sup> July 2019.

## 2.2 To note the progress being made in closing the 2018/19 accounts.

### 3. BACKGROUND AND PROCESS

#### 2016/17 Accounts.

3.1 Significant work has been undertaken by officers and external audit to enable the sign off of the 2016/17 accounts. As members have previously been advised, this has not just required the provision of evidence and major re-working of 2016/17 transactions and balances but the re-stating of 2015/16 comparator balances. In particular:

- the re-valuation of a large number of the Council's fixed assets (as at March 2015; March 2016; and March 2017 - requiring 450 separate valuation certificates to be produced).
- both of the Council's Private Finance Initiative Schemes (Housing and Waste) being re-worked from inception (2005 and 2008 respectively) and;
- the reapportionment of revaluations and impairment of housing dwellings from 2008.

3.2 The table below indicates the scale of the changes made to the figures in the three core financial statements (Balance Sheet; Comprehensive Income & Expenditure Statement; and Cash Flow Statement):

	2015/16 Comparators		2016/17 Balances	
	Changes No. (%age)	Out of No.	Changes (%) No. (%age)	Out of No.
Balance Sheet	31 (56%)	55	40 (73%)	55
Income & Expenditure Statement	15 (56%)	27	25 (93%)	27
Cash Flow Statement	8 (80%)	10	9 (90%)	10

3.3 The changes largely impact on the carrying value of fixed assets which have increased by £22.9m for Total Assets offset by adjustments in Unusable Reserves. The balance on Usable Reserves has reduced by £147k and relates entirely to the Housing Revenue Account.

3.4 EY have undertaken an extensive internal peer review of their audit work and opinion and Public Sector Audit Appointments Ltd. have been consulted on the draft opinion.

3.5 In mid-2017 due to the lack of evidence to support several key balances, uncertainty around the valuation of fixed assets and the PFI accounting treatment, EY were unable to provide an opinion on the Council's accounts and issue an audit certificate. The work undertaken since then has enabled EY to certify the 2016/17 accounts, albeit with four qualifications.

- 3.6 Three of the qualifications relate to the fact it has not been possible to retrospectively provide sufficient evidence to allow EY to fully validate the debtor and creditor balances as at 31<sup>st</sup> March 2017. Any uncertainty in these balances has a corresponding impact on the Comprehensive Income and Expenditure Statement and thus represents a third qualification to the accounts. Finally, an error in the original actuarial calculation of the pension fund deficit (applicable and unadjusted in all other Berkshire authorities, but material for Reading) is also subject to a qualification. Further detail on the adjustments made to the accounts and the audit opinion can be found in the External Auditors Report which appears elsewhere on the agenda.

#### **2017/18 Accounts**

- 3.7 Work on closing the 2017/18 accounts began in the spring of 2018, with the closure of the management accounts and a draft outturn position being reported to this Committee in August 2018.
- 3.8 As previously reported, it was necessary to commission fresh property valuations for the 2017/18 accounts, the majority of which were received at the end of January 2019. However, it was only possible to process the valuations once EY had confirmed they had completed the audit of the 2016/17 Asset Register.
- 3.9 Progress in compiling the accounts has been steady. A number of team members are undertaking tasks for the first time and, coupled with a desire to ensure accuracy and provide sufficient audit evidence and quality working papers; this has meant that progress has been slightly slower than originally expected.
- 3.10 In addition, as a result of issues that have arisen nationally during the audits of both 2017/18 and 2018/19 accounts officers have had to obtain further information and enhance the working papers. In particular, revised reports have been obtained from the Actuary to reflect the actual outturn of the Pension Fund and the potential impact of the recent Court of Appeal judgment regarding age discrimination (Lord Chancellor v McCloud & Others, December 2018).
- 3.11 At the time of writing it is anticipated that the draft 2017/18 accounts will be available for public inspection the week commencing the 29<sup>th</sup> July 2019. In compiling the 2017/18 accounts new accounts closure software has been implemented which will ensure supporting working papers are prepared and stored effectively and improve accessibility for external audit.

#### **2018/19 Accounts**

- 3.12 The 2018/19 management accounts have been closed and an outturn position reported to the July 2019 Policy Committee. Once the draft

2017/18 accounts have been completed officers will move on to compiling the 2018/19 accounts.

3.13 As part of closing the 2018/19 accounts officers are planning to implement newly acquired fixed asset software and transfer the calculations associated with property valuations from the current historic spreadsheet arrangement.

3.14 The 2018/19 accounts should be available for audit and public inspection by early September 2019.

#### **4. EQUALITY IMPACT ASSESSMENT**

4.1 Not applicable.

#### **5. LEGAL IMPLICATIONS**

5.1 Part Five of the Accounts and Audit Regulations 2015 requires authorities to allow the public to inspect the accounts for a single period of 30 working days and stipulates that must include the first 10 working days of June of the financial year immediately following financial year. The Council were unable to comply with this requirement in respect of both the 2017/18 and the 2018/19 Accounts as they were not ready for inspection.

5.2 At the time of writing it is anticipated that the formal notice to open the 2017/18 draft accounts for the 30 working day inspection period will be on the website in the next few days. The inspection period for the 2018/19 Accounts is expected to commence almost immediately after the inspection period for 2017/18 closes.

#### **6. FINANCIAL IMPLICATIONS**

6.1 The Council has not yet received EY's final audit fee for the audit of the Council's 2016/17 accounts, but as previously reported EY indicated at the end of 2018 that their fee was likely to be at least £300,000 above the scale fee due to the additional work involved.

6.2 Public Sector Audit Appointments Limited, who manage and oversee the appointment of external auditors charge a percentage mark up as part of the auditors fee to cover their running cost. As their costs are recovered based on the original scale fees for authorities (£108,938 for Reading), the Council has written to them asking them to waive any mark up on EY's fees charged above this level.

6.3 The valuation work commissioned to enable the completion of the 2017/18 accounts has cost £27,000.

# Reading Borough Council Audit Results Report

Year ended 31st March 2017

10<sup>th</sup> July 2019

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better  
working world

Agenda Item 10



Private and Confidential

10<sup>th</sup> July 2019

Dear Audit and Governance Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of Reading Borough Council for 2016/17.

We have substantially completed our audit of Reading Borough Council for the year ended 31<sup>st</sup> March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue a qualified audit opinion on the financial statements in the form at Section 3. The Council have missed the statutory deadline of 30<sup>th</sup> September 2017. We are also reporting a number of matters about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Given the difficulties experienced by the Council to produce the 2016/17 accounts, and the number of control deficiencies identified during our audit, the Council has also failed to meet the statutory deadline for the production and certification of the 2017/18 and 2018/19 statements. We plan to begin our work on these in August 2019.

This report is intended solely for the use of the Audit and Governance Committee Members, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 23<sup>rd</sup> July 2019.

Yours faithfully

Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Reading Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Reading Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Reading Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

# Executive Summary





# Executive Summary

## Scope update

In our audit planning report tabled at the January 2017 Audit and Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this scope but we note other changes to our plan below:

- **Changes in materiality**

We updated our planning materiality assessment using the final draft statements and have also reconsidered our risk assessment throughout the audit. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £4,692,490 (Audit Planning Report – £3,874,160). This results in updated performance materiality, at 50% of overall materiality, of £2,346,245, and an updated threshold for reporting misstatements of £234,624. This is the materiality used in the draft version 8 of the unaudited financial statements received in July 2017. We have updated our materiality receipt of each subsequent version of the financial statements.

- **Use of specialists**

In addition to those specialists outlined in the planning report (EY pensions team and EY Estates team) and due to the issues and complexities identified with the draft 16/17 accounts presented to us, we used the following additional specialists.

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Additional Specialist used	Scope of specialist
EY Technical Expert	Due to the poor quality of the 16/17 draft accounts presented to us and the speed in which they were assembled, we required the support of a technical expert from our Financial Accounting Advisory Services (FAAS) team. The expert performed a cold review of the draft accounts & identified 94 possible separate issues assigning them as either material or trivial.
Private Finance Initiative (PFI) Expert	Due to lower materiality levels applied in 2016/17 as a result of the issues identified on the audit in the previous year, the reduction in journal controls from the previous year and the emerging issues on capital accounting, more focus was placed on the PFI figures disclosed in the accounts. Due to the complexity of the accounting entries we instructed our EY expert to review both the Housing and Waste PFI schemes. Significant issues were found in the PFI models and these have been subsequently corrected by the Council. See the 'audit differences' section in this report for further detail.

# Executive Summary

## Scope update

- **Changes in audit strategy**

As our risk assessment increases, we require more persuasive audit evidence from substantive procedures to reduce our audit risk to an acceptably low level and draw reasonable conclusions on which to base our opinion. As a significant number of errors had been identified with the draft accounts, in March 2018 we increased our risk assessment across all areas of the accounts.

- **Changes in the audit team**

Due to the significant issues identified on the audit the Audit Partner introduced an Engagement Quality and Compliance Reviewer (EQCR) onto the engagement. The EQCR was used to challenge the audit team on key judgements and to further support the quality of the conclusions reached on the audit. Adrian Balmer also replaced Alan Witty as the senior manager with responsibility for the audit.

**Additional Significant Risk - Administration and Maintenance of Property, Plant and Equipment Fixed Asset Register including accounting for the 2 PFI schemes**

The review of the accounts from our technical expert highlighted significant issues with the Fixed Asset Register and how the Council were accounting for their Property, Plant and Equipment. Consequently, we identified this area as a significant risk due to the complexity of the work to be carried out and also given the material nature of the PPE balances within the financial statements.

- **Group scoping**

Reading Transport Limited (RTL) and Reading - Hampshire Property Partnership (RHPP) were reviewed and given the values involved, or the nature of the disclosures made within the financial statements, were both subsequently revised to be within scope for the 16/17 audit based on either qualitative and/or quantitative grounds.

- **Audit Fee**

The changes identified here to our initial audit plan and the ongoing delay in being unable to certify the financial statements have entailed additional unexpected costs. A detailed analysis of fees can be found in section 9 of this report.

## Status of the audit

We have substantially completed our audit of Reading Borough Council's financial statements for the year ended 31<sup>st</sup> March 2017 and have performed the procedures outlined in our audit planning report and also the additional procedures referred to on the previous slides as scope changes. Subject to satisfactory completion of the outstanding matters set out in appendix B we expect to issue a qualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.



# Executive Summary

## Audit differences

Aside from the areas of qualification we identified 2 unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Audit and Governance Committee and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £ £1.241 m. We agree with management's assessment that the impact is not material. Details can be found in Section 5 Audit Differences,

We have also identified a significant number of audit differences which have been adjusted by management. Details can be found in Section 5 Audit Differences.

As part of the audit we also identified a number of adjustments which also impacted on the prior period balances and these have been corrected through Prior Period Adjustments. Further details of the nature of these and the values involved can be found within the Letter of Representation as detailed at Appendix B.

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## Objections and correspondence from members of the public

We have received a number of items of correspondence in relation to the 2016/17 accounts from members of the public.

We have considered each of these carefully and concluded that they have not had any impact on our financial statement opinion or value for money conclusion. We therefore plan to issue our completion certificate along with our opinion and value for money conclusion.

## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Reading Borough Council's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report along with other area's of audit focus identified since the issue of the audit plan.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues;
- ▶ You agree with the resolution of the issue;
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit and Governance Committee.

# Executive Summary

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, we have updated our understanding of key processes and the controls which are in place to detect or prevent error. Through this work we have identified significant deficiencies in the design or operation of internal control that might result in a material misstatement in your financial statements. We have set out these findings in Section 6 of this report.

We previously issued a Section 24 Statutory Recommendations for improvement report to the council in February 2017. The recommendations arising from that report feature in our modified VFM opinion as included in our audit opinion at Section 3.

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risk - Delivering Financial Resilience.

We have a number of matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources including our follow up of the Section.24 recommendations made to the Secretary of State in 2015/16 in line with our statutory reporting powers. Where we have previously issued S.24 recommendations we are required to follow up on the progress the Council has made against these recommendations.

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have no other matters to report.

## Independence

We have no matters relating to our Independence to bring to your attention.

Please refer to Section 9 for our update on Independence.



## 02 Areas of Audit Focus



## Areas of Audit Focus

# Significant risk

### Risk of fraud in revenue and expenditure recognition

#### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. For this local government body, our assessment of risk focused on procedures in the following areas:

- Revenue expenditure funded from capital under statute;
- Property, plant and equipment additions; and
- Income and expenditure disclosed within the Comprehensive Income & Expenditure Statement (CIES).

#### What did we do?

We:

- I. Sample tested and reviewed the appropriateness of the items classified as Revenue Expenditure Funded From Capital Under Statute;
- II. Sample tested Property Plant and Equipment additions during the 16/17 year to ensure appropriate capitalisation;
- III. Sample tested the population of income and expenditure disclosed within the CIES and reviewed underlying documentation for reasonableness and business purpose;
- IV. Ensured income and expenditure sampled had been accounted for in the correct financial year;
- V. Reviewed the reasonableness of the revenue and expenditure policies and checked the council were following these;
- VI. Sample tested and reviewed income and expenditure accruals to check appropriateness and accuracy;
- VII. Reviewed and discussed with management accounting estimates for evidence of possible management bias. E.g. Equal pay provision; and
- VIII. Tested all material journals posted that have unusual back dating.

#### What are our conclusions?

As part of our testing we identified a number of material errors in revenue and expenditure recognition and have further detailed the nature and value of these adjustments at Section 4 - Audit Differences.

Despite these errors we did not identify any instances of the manipulation of revenue and expenditure recognition as a direct result of fraud.

We have reported issues across a number of areas such as capital additions and accruals. Our conclusions here are that the nature of the errors were not indicative of fraud but rather due to a basic lack of understanding of key accounting principles.

As a result, and also in relation to the qualified opinion issued on Debtors and Creditors we have issued an 'except for' audit opinion on Comprehensive Income and Expenditure as per the opinion included at Section 3 within this report.



# Areas of Audit Focus

## Significant risk

### Misstatements due to fraud or error

#### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. For this local government body, our assessment of risk focused on procedures in the following areas:

- Completeness of provisions;
- Completeness and valuation of creditor and debtor accruals;
- Valuation of property, plant and equipment; and
- Manual journal postings.

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#### What judgements are we focused on?

- I. Completeness of provisions including Business rates appeals;
- II. Estimate of pension liability;
- III. Manual accruals; and
- IV. Valuation of PPE.

#### What did we do?

- I. We tested the appropriateness of material manual journal entries recorded in the general ledger near year end and all journals posted by senior management throughout the year;
- II. We searched for specific journal descriptions that may identify journals posted by individuals solely on the instruction of more senior staff;
- III. We reviewed accounting estimates for evidence of management bias such as PPE valuations. We achieved this with assistance from our EY Estates team;
- IV. We evaluated the business rationale for any significant unusual transactions;
- V. We searched for unrecorded liabilities after year end to ensure completeness of provisions and accruals;
- VI. We agreed the IAS 19 disclosure to the actuary report and challenged estimates used.

#### What are our conclusions?

We have identified material weaknesses in controls as detailed within this report which have resulted in a number of material adjustments and also the proposed qualification of a number of key areas of the financial statements - See Section 3 of the Audit Report.

However we have not identified any evidence of management override.

We have identified a number of instances of inappropriate judgements being applied which have resulted in a number of material mis-statements which have resulted in qualifications across a number of significant accounts. Further details of the qualification can be found at Section 3 and the scale and degree of the errors identified can be found at Section 4.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.



# Areas of Audit Focus

## Significant risk

### Final Accounts Closedown

#### What is the risk?

We experienced significant delays in completing our audit of the Statement of Accounts in 2015/16. We experienced delays in receiving the working papers we needed and the required supporting information. We raised a number of recommendations in our Audit Results Report and management have committed to improve performance this year.

At planning stage we considered it unlikely that all the issues would have been rectified in the time available since we issued the report therefore there was still a risk of issues arising from our audit

#### What did we do?

- Page 112
- I. Discussed with management early on our requirements before the start of the closedown process and provided a document (Client Assistance Schedule) detailing our requests in advance for evidence/ working papers in each area of the accounts;
  - II. Held regular meetings with management throughout early 2017 to help us identify potential issues early on;
  - III. Gave a presentation to relevant Council staff on '*What is good Audit Evidence*' before the start of the audit;
  - IV. Reviewed work papers when they were made available to ensure they are appropriate before the commencement of the year end audit;
  - V. Promptly raised our concerns in relation to delays and issues arising to key members of staff during the year end audit; and
  - VI. Instructed our technical expert from our Financial Accounting Advisory Services to review the draft statement of accounts to help identify potential issues.

#### What are our conclusions?

We identified the following issues in the initial unaudited versions of the financial statements presented for audit:

- Poor quality working papers which did not easily tie through to the figures as per the financial statements and so caused further delays in seeking explanations;
- Delays in the receipt of working papers despite pre-agreed timelines;
- Difficulties in obtaining appropriate audit evidence to conclude on a balance. This was relevant across a number of areas but specifically an issue initially on journals and Debtors and Creditors;
- Lack of quality control arrangements in place in delivery of the financial statements. The various initial versions of the unaudited financial statements would have benefited from a strong quality control process; and
- Lack of adherence to key guidance which resulted in numerous unnecessary adjustments if the guidance had been appropriately applied.

The final agreed version of the financial statements, except for the areas of qualification, now addresses some of these concerns.





# Areas of Audit Focus

## Significant risk

### Completion of bank and control account reconciliations

#### What is the risk?

Our work in the previous year identified a lack of controls account reconciliations across a number of areas. These should be completed and reviewed at least monthly. In addition the cash and bank reconciliation was not being completed and reviewed.

These issues were raised in the Section 24 Schedule 7(2) Recommendations report to Council and in addition we included a significant risk in our plan as these weaknesses can cause issues with the financial statements completeness and accuracy.

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#### What did we do?

- I. Lead senior provided a presentation at the beginning of the audit to a handful of finance staff on what a system reconciliation is and what would be required as audit evidence from the Council;
- II. Obtained an understanding of which reconciliations were being carried out, if any;
- III. Reviewed reconciliation working papers in the attempt to agree balances to system reports and obtain audit evidence of large reconciling items to confirm they have been addressed.

#### What are our conclusions?

It became apparent that none of the key system control reconciliations had been carried out during the year, including cash.

31st March 2017 Cash Reconciliation was finally completed and provided to our audit team on 22nd February 2018.

Although a system generated accounts payable reconciliation was provided to EY, it was identified that staff were posting journals into the AP control code and therefore this report was invalid.

We identified that the Revenue and Benefits team were comparing the debtor balances held on Academy and on Oracle Fusion but there was then no follow up on trying to clear down reconciling items and these balances were simply being rolled forward - circa £4-5 m.

We concluded that appropriate controls were not in place throughout the period of account and also these were not rectified in a timely manner following the year end.



## Areas of Audit Focus

# Significant risk (new significant risk added since planning)

### Administration and maintenance of the Property, Plant and Equipment fixed asset register including accounting for the 2 Private Finance Initiative (PFI) Schemes

#### What is the risk?

As part of the 2016/17 closedown of the financial statements the Council was using an Excel based Fixed Asset Register (FAR). The administration and maintenance of the FAR was heavily reliant on human inputs and there were no automated aspects involved. Given the material nature of the PPE balances within the FAR, and their sensitivity to minor changes, the FAR was susceptible to producing materially incorrect outputs which in turn had significant and material consequences in numerous accounts within the financial statements. In addition there was no recognised capital accountant in place for the 2016/17 closedown. The accounting entries, administration and maintenance of the FAR were completed by a retired external consultant. The use of a retired consultant raised potential issues with Continuing Professional Development and access to the most up to date sector guidance and accounting developments. This included consideration of the accounting treatment in respect of the two PFI schemes which the Council was involved in. These were the Waste PFI and also the North Whitley Housing PFI.

#### What did we do?

1. We interrogated the FAR to determine the validity of the balances supporting the 2016/17 financial statements;
2. We assessed the FAR to ensure that Property, Plant and Equipment values as per the valuer reports was consistent with the values uploaded to the FAR;
3. We discussed the logic of the FAR with key practitioners within the Council to understand the key assumptions and principles supporting the operation of the FAR;
4. We looked at the approach to valuations and key assumptions used supporting the accounting for PPE;
5. We involved internal valuation specialists to support the work in this area;
6. We involved an internal PFI specialist to support the work in this area; and
7. We involved an internal technical specialist to support the work in this area.

#### What are our conclusions?

We identified the following issues arising from Property, Plant and Equipment and PFI in the initial versions of the financial statements presented for audit:

- Difficulties in verifying the logic behind certain transactions due to the inherent limitations in using an Excel based FAR i.e. unable to re-run reports to understand where certain values were derived from and figures being 'hard-coded' with the FAR and associated capital working papers;
- Inefficiencies when tracking values between multiples years and the requirement to have to navigate between multiple spreadsheets tracking back to 2007/8 in some instances to verify the validity of balances as disclosed in the 2016/17 financial statements;
- Non-adherence to a number of key accounting and valuation concepts including key guidance issued in the CIPFA Code of Audit Practice. This has resulted in a number of significant and material adjustments including a number of prior period adjustments in the final audited statement of accounts; and
- Errors in the PFI models across a number of assumptions and inputs. These have been corrected and any differences in the models are now within accepted ranges with a number of differences offsetting to reduce the overall impact.

Based on the work completed above and the adjustments made the PPE and PFI balances are materially correct.



# Areas of Audit Focus

## Other areas of audit focus

What is the risk/area of focus?	What did we do?	What are our findings?
<p>Risk of understatement of Equal pay Provision</p>	<ol style="list-style-type: none"> <li>I. Made enquiries with Head of Finance around how the provision was calculated and what key assumptions were used;</li> <li>II. Recalculated provision based on EY judgement and assumptions;</li> <li>III. Collected external information on settlements to assess assumptions used for the provision, including inspecting bank statements for payments made.</li> </ol>	<p>Based on information available at the time the provision amount of £14m appears to be reasonable. This was further evidenced by payments and settlements which have subsequently taken place in 2017-18. No issue identified.</p>
<p><b>Valuation of Property, Plant and Equipment:</b> We found errors in 2015/16 PPE balances and found it difficult to find supporting evidence for some items. There is a risk that supporting information might not be available for some items in the accounts.</p>	<ol style="list-style-type: none"> <li>I. Instructed our EY estates team to review a sample of assets (across the asset classifications) to ensure valuations are appropriate;</li> <li>II. Instructed our EY technical expert to review the Fixed Asset Register to ensure the accounting within this is appropriate; and</li> <li>III. Audit team reviewed the associated disclosures within the accounts to ensure compliance with the standards and the council's own policies.</li> </ol>	<p>EY estates team reviewed a sample of assets and all assets sampled were found to be within the lower and upper end of the range determined by the estates team. This work was reviewed in turn by the audit team.</p> <p>We completed significant work on the revised Fixed Asset Register following the full revaluation exercised and this was found to be fully reconciled to the ledger and the supporting disclosure notes. The required adjustments were followed through and agreed.</p> <p>The audit team reviewed the associated disclosures and agreed the revised disclosures in respect of Property, Plant and Equipment</p>

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## Areas of Audit Focus

### Other areas of audit focus

What is the risk/area of focus?	What did we do?	What are our findings?
Financial Statements Presentation - Expenditure and Funding Analysis (EFA) and Comprehensive income and expenditure statement	Reviewed the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the code. Audit team were assisted by our EY technical expert.	<b>Many issues identified:</b> <ul style="list-style-type: none"><li>• EFA was set out as a core financial statement which is incorrect and not code compliant;</li><li>• The 'Adjustments between accounting and funding basis under regulation' in the EFA should be equal and opposite signage to the MIRS accounts - but was found not to be;</li><li>• The values in the EFA in both years are different, the MIRS is £9.521m greater in 15/16 and £8.435m greater in 16/17. The balances shown were incorrectly reconciled and the EFA needed revising;</li><li>• Where column 1 of the EFA includes material items of income and expenditure that are named in Para 3.4.2.99 of the code these required to be analysed in the disclosure note over the named segment - no such note had been included; and</li><li>• Column 1 of the EFA does not reconcile to items reported to decision makers as set out in the Narrative Foreword</li></ul>



## Areas of Audit Focus

### Accounting Standards Issued But Not Yet Adopted

The CIPFA Code confirms that application of IFRS 15 'Revenue from Contracts with Customers' does not apply to Local Government entities for 2017/18. It is expected that the standard will be applied for years commencing 1 January 2018 onwards which, for Local Government entities, is the financial year ended 31 March 2019.

The standard is not expected to have a significant impact on most Local Government clients as the majority of funding is drawn down from parliament; however any other income streams will need to be considered against the criteria in the standard.

Management have not yet formally completed an assessment of the impact of IFRS 15 at Reading Borough Council.

We will work with management to understand the process for reporting under IFRS 15 once the reporting requirements for the sector are confirmed in the Department CIPFA Code Accounting Manual 2018/19.

Other standards which have been issued include IFRS 9 and IFRS 16. These relate to Financial Instruments and Leases respectively. We will also liaise management in respect of these standards when they are required to be incorporated within the CIPFA Code of Practice on Local Council Accounting and will use our technical colleagues as necessary to support the finance team as necessary.



# Areas of Audit Focus



## Other matters

### ▸ Significant difficulties encountered during the audit & discussed with management:

The audit team experienced a number of significant difficulties during the 2016/17 audit. In summary a large number of these difficulties arose as a result of the control failures detailed within this report and expanded on at Section 7 - Assessment of the Control Environment.

The control failures noted made the audit very difficult to execute and resulted in significant additional input from the EY audit team and also staff at the Council at all levels. The most significant of these were in respect of Journals and the lack of key control account reconciliations. We have also included other issues which were regarded as significant difficulties:

#### 1) Journals:

Journal controls were not in effect for the period 2016/17 and as a result numerous errors arose from the fact that inexperienced staff were able to prepare and post journals with incorrect debit and credit entries. This not only resulted in incorrect postings and therefore inaccurate financial reporting but often when the errors were being unwound further errors were then identified which exacerbated the initial error and resulted in significant additional time to correct. In addition numerous journals were found to have no supporting documentation supporting the journal entry as this was one of the controls that had been removed during 2016/17.

#### 2) Control Account Reconciliations:

It was also noted that key control account reconciliations were not being completed during 2016/17. This included key monthly control account reconciliations on key accounts such as Cash, Debtors and Creditors. Regular reconciliations are a fundamental aspect of financial management and the non-completion of these key reconciliations increased the risk to the Council not only in respect of error but also potentially fraud.

#### 3) Significant accounts & inability to provide fully reconciled supporting breakdowns:

As part of our testing of key material balances within the financial statements we request breakdowns supporting the balances as per the financial statements. For a number of Significant accounts the Council were unable to supply the audit team with a supporting listing for them to select samples for further testing. This was particularly relevant to Debtors and Creditors testing. This caused significant delays in the completion of testing in these areas and also further questions around the validity of the balances as per the financial statements. Given the inability to obtain the supporting figures for Debtors and Creditors we have qualified these accounts in our audit report as per section 3 within this report.

#### 4) Quality Control & Oversight:

Our initial review of the various initial versions that we were originally presented with highlighted significant quality control deficiencies. It was clear that the accounts as presented for audit had not been appropriately quality controlled. In addition working papers as initially presented were not of the standard expected and often did not tie through to the financial statements. Again this resulted in numerous errors which could have been prevented. It was also apparent that key aspects of the CIPFA Code and Guidance Notes which are used to support an ISA compliant set of financial statements had not been followed. Again this resulted in further errors and additional work across a number of key areas. This lack of quality control added significant additional time and expense to the approval of the financial statements. It also increased the risk profile of the audit given the fundamental nature of the errors being identified.



# Areas of Audit Focus



## Other matters (continued)

### **5) Inability to provide appropriate audit evidence:**

Across a number of significant areas of the accounts the Council were unable to supply appropriate audit evidence supporting the balances sampled. This was particularly an issue in journals where controls in respect of supporting documentation had slipped. However we also identified issues in this respect in other key areas most notably Debtors and Creditors. As a result the Council were unable to verify the existence of a number of balances selected for testing. As existence of a balance is a key audit assertion failure to confirm existence results in a fail and as such we have seen large extrapolated errors in accounts such Debtors and Creditors as a result. Further details in respect of the value of these extrapolated errors can be found at Section 4 - Audit Differences.

### **6) Staffing of the Finance Team:**

As part of the initial stages of the audit we identified instances of inexperienced staff or staff without the appropriate qualifications in the finance team being involved in key positions within the closedown of the financial statements. This resulted in numerous errors within the financial statements. The nature of the errors identified reflected a basic lack of understanding of key accounting principles with debit and credit entries often used incorrectly. Similarly, the lack of an in-house capital accountant exacerbated issues with the closedown of the Property, Plant and Equipment entries within the financial statements. We should note that as a result of some of the issues identified within this report, we have seen significant changes made to the wider finance team following a wholesale review whereby staff were made to reapply for all positions.

### **7) Inadequate Accounting Software - Property, Plant & Equipment Fixed Asset Register:**

Property, Plant & Equipment (PPE) balances within the financial statements are usually, with the IAS 19 pension entries, the most significant by value in the financial statements. The accounting for PPE can also be challenging and pervasive impacting many different accounts and disclosures within the financial statements. The council closed down their 2016/17 financial statements using an Excel based Fixed Asset Register (FAR). The administration and maintenance of the FAR was overly burdensome and prone to a higher likelihood of human error given the lack of automation. The majority of other councils we audit use recognised FAR software which automates to a large extent the entries required for the financial statements. The use of a recognised FAR facilitates easier auditing of the outputs and gives greater confidence in the material correctness of the entries impacting on the financial statements due to the inherent controls and functions within the software. We should note that since then the council have since purchased an off the shelf local government specific FAR and so going forward we would expect to see less issues arising from the administration and maintenance of the FAR and greater efficiencies from the automation in effect.



## Areas of Audit Focus



### Other matters (continued)

▸ **Written representations that we are seeking**

Given the nature of the findings and the significant delay in certifying the 2016/17 financial statements we are seeking a number of representations from management. The letter of representations, including the specific representations, can be found at Appendix C within this report.

▸ **Expected modifications to the audit report:**

As a result of the nature and pervasiveness of some of the errors across key significant accounts we will be modifying the audit report i.e. issuing a qualified audit report. The modified audit report can be found at section 3 within this report.





## 03 Audit Report



# Audit Report

## Draft qualified audit report

Reading Borough Council 2016-17

### Our opinion on the financial statements

We have audited the financial statements of Reading Borough Council and Group for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Reading Borough Council and Group Movement in Reserves Statement;
- Reading Borough Council and Group Comprehensive Income and Expenditure Statement;
- Reading Borough Council and Group Balance Sheet;
- Reading Borough Council and Group Cash Flow Statement;
- Related Notes 1 to 43;
- Related Group Notes 1 to 5;
- Housing Revenue Account Income and Expenditure Statement;
- Movement on the Housing Revenue Account Statement;
- Collection Fund; and,
- Related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

#### Qualified opinion

In our opinion the financial statements:

- give a true and fair view of the financial position of Reading Borough Council and Group as at 31 March 2017 and of its expenditure and income for the year then ended, except for the following areas: short-term creditors; short-term debtors; comprehensive income and expenditure statement; and IAS 19 scheme assets;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of Reading Borough Council and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion except for the areas as outlined below.

During the audit we identified a number of significant control deficiencies which included, for example, no journal controls, no control account or bank and cash reconciliations and no clear control over the year-end financial closedown processes.

We have not been able to obtain sufficient appropriate compensating audit evidence in relation to the following areas: short-term creditors; short-term debtors; IAS 19 scheme assets and the following lines that make up the cost of services part of the comprehensive income and expenditure statement: Adult Care and Health Services; Corporate Support Services; Children, Education and Early Help Services; Environment and Neighbourhood Services and Housing Revenue Account. Given the material uncertainty in these areas and the fact that we have been unable to obtain the required level of assurance, we cannot form an opinion on the material correctness of these accounts.



# Audit Report

## Draft qualified audit report

Reading Borough Council 2016-17

### Our opinion on the financial statements

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Resource's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The other information comprises the information included in the Narrative Report set out on pages 3 to 12, other than the financial statements and our auditor's report thereon. The Director of Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

##### *Arrangements to secure economy, efficiency and effectiveness in the use of resources*

##### **Qualified conclusion Adverse**

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2016, we are not satisfied that, in all significant respects, Reading Borough Council and Group put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

#### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

In respect of the following we have matters to report by exception:

- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act



# Draft Qualified Audit Report

Reading Borough Council 2016-17

## Our opinion on the financial statements

Under Section 24 of the Local Audit and Accountability Act 2014, we may designate any audit recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response.

On 2<sup>nd</sup> February 2017 we issued a report containing recommendations concerning the Authority's corporate governance designated under Section 24 Schedule 7(2).

### Responsibility of the Director of Resources

As explained more fully in the Statement of the Director of Resources Responsibilities set out on page 40, the Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### *Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources*

#### **Authority's responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

#### **Auditor's responsibilities**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.



# Draft Qualified Audit Report

Reading Borough Council 2016-17

## Our opinion on the financial statements

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether the Reading Borough Council and Group had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Reading Borough Council and Group put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Reading Borough Council and Group had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Basis for Adverse Conclusion

### Informed decision making:

► Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance information

We found that the financial and performance information used by the Council is not always accurate and reliable and therefore did not help informed decision making.

► Reliable and timely financial reporting that supports the delivery of strategic priorities

We found that the financial reporting was not reliable throughout 2016/17.

► Maintaining a sound system of internal control

We found that some of the basic financial controls were not working as expected, for example, the regular completion of reconciliations is not timely, the year-end bank reconciliation did not balance and there were no control procedures over the production or posting of journals during financial year 2016/17. This increases the risk of fraud and errors remaining undetected.

### Sustainable resource deployment

► Planning finances effectively to support the sustainable delivery of strategic and maintain statutory functions

We found that the action to achieve sustainable savings during 2016/17 did not deliver the required savings. The 2016/17 outturn was an overspend of circa £7.5million and required the use of reserves to balance the budget. The Council were also predicting the use of reserves in 2017/18.



# Draft Qualified Audit Report

Reading Borough Council 2016-17

## Our opinion on the financial statements

### ► Children's Services

In August 2016, Ofsted issued an inspection report of services for children in need of help and protection; children looked after and care leavers and a review of the effectiveness of the local safeguarding children board.

It concluded that Children's services in Reading are inadequate and found serious, persistent and systemic failures in the services provided to children who need help and protection. The Inspection found that children are left too long in situations of unknown and acute risk.

The Council accepted the findings of the Inspection and put in place procedures to improve performance. Ofsted have monitored progress since the issue of its initial report and in its update letter, issued in June 2017 concluded that the Council was not making the expected progress in improving services for its children and young people.

#### • Section 24 recommendations

We issued recommendations under Section 24 Schedule 7 (2) of the Local Audit and Accountability Act 2014. The Council have developed an action plan to monitor progress against the recommendations. We have reviewed the actions taken and concluded that whilst the Council have a challenge on both the financial position and strengthening their controls and processes, there are signs of improvement:

- more robust financial monitoring;
- clearer reporting and more consistent messages on the position;
- detailed savings plans which have been discussed and agreed with Members; and
- work continues on the financial position and reporting.

However deficiencies in the systems of internal control remain.

### Adverse conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are not satisfied that, in all significant respects, Reading Borough Council and Group put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

### Certificate

We certify that we have completed the audit of the accounts of Reading Borough Council and Group in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

### Use of our report

This report is made solely to the members of Reading Borough Council and Group, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Reading Borough Council and Group, and Reading Borough Council and Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

Maria Grindley (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Reading  
Xx July 2019

The maintenance and integrity of the Reading Borough Council and Group web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



# 04 Audit Differences





# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted known differences above £2,346,245

As reported in our Audit Planning Report; we highlight here the following known misstatements greater than 0.5% of gross expenditure (£2,346,245) which have been corrected by management that were identified during the course of our audit.

### CASH:

- ▶ £12.15M Re-classification error between Short Term Investments and Cash.

### RECEIVABLES & PAYABLES:

- ▶ £3.2M Overstatement of debtors. Debtor incorrectly raised in relation to overspend incurred by schools.
- ▶ £4.2M Overstatement of debtors (understatement of cash). Cash received 31<sup>st</sup> March 2017 but not matched against debtor.
- ▶ £2.6M Understatement of debtors & overstatement of creditors due to prepayments being incorrectly included with creditors.

### FIXED ASSETS:

- ▶ £9.9M incorrectly classified as Assets Held for Sale as they do not meet the required criteria.
- ▶ £26.4M incorrectly classified as Investment Property as assets are not held for this purpose.
- ▶ £14.1M Understatement of PPE, incorrect Social housing factor applied to council dwellings
- ▶ £3.2M Understatement of PPE due to incorrect application of impairments
- ▶ £7.2M Overstatement of infrastructure assets as a result of incorrect depreciation calculation
- ▶ £13.4M Re-classification of assets from Infrastructure to Vehicles, plant and equipment
- ▶ Multiple material adjustments across PPE resulting from revised valuations on PPE as at 31.3.16, 01.04.16 and 31.3.17. A number of these resulted in Prior Period Adjustments. Further material adjustments to the PFI's resulting from a revision to the model.

### BORROWINGS:

- ▶ £4M overstatement of Short Term Borrowings ( & overstatement of cash) since this amount was re-paid on 31<sup>st</sup> March 2017.

### INCOME & EXPENDITURE:

- ▶ £3.4M Overstatement of income and expenditure as a result of incorrect journaling of Public Health Grant
- ▶ £9.9M Overstatement of income as a result of a collection fund adjustments
- ▶ £8M Overstatement of expenditure and reserves as a result of a prior period collection fund adjustment
- ▶ £16.7M Overstatement of income & expenditure as a result of PFI adjustment
- ▶ £18.5M Overstatement of expenditure - incorrect accounting of impairment reversals HRA
- ▶ £5.4M Overstatement of expenditure due to incorrect accounting entries on disposals of assets





# Audit Differences

For the benefit of the Audit and Governance Committee and considering the nature and complexity of the 16/17 audit we would also like to bring to your attention the corrected known adjustments above £234,624 (5% of materiality).

## Summary of adjusted known differences above £234,624

### **CASH:**

- ▶ £1.1M understatement of cash balance and creditor balance due to creditor codes being mapped to cash

### **RECEIVABLES & PAYABLES:**

- ▶ £607k Overstatement of debtors balance due to an error in OHMS balance being incorrectly reflected in the General Ledger.
- ▶ £966k Reclassification error, long term debtors incorrectly classified as short term
- ▶ £1.4M Reclassification error, short term debtors incorrectly classified as long term
- ▶ £668k Overstatement of creditors due to an error in OHMS balance being incorrectly reflected in the General Ledger.
- ▶ £476k Overstatement of creditors due to incorrect balance shown owed to Berkshire Pension Fund.
- ▶ £489k Overstatement of creditors - not a creditor at year end
- ▶ £650k Reclassification error of backdated care cost - should be classified as a provision
- ▶ £1.6M Overstatement of creditors (and cash) as paid on 31<sup>st</sup> March 2017 but not recorded.
- ▶ £2.2M Understatement of creditors (RIA) as a result of incorrect treatment of revenue grants
- ▶ £710k Reclassification error between creditors and debtors in relation to commuted sums.

### **FIXED ASSETS:**

- ▶ £440k Omission of asset meeting 'Asset Held For Sale' criteria.

### **INCOME & EXPENDITURE:**

- ▶ £1.1M Overstatement of income & Expenditure as a result of incorrect journaling of grants
- ▶ £849k Understatement of income & expenditure as a result of incorrect journaling of schools transferring to academies
- ▶ £1.6M Understatement of expenditure due to incorrect reversing of impairments in relation to two schools
- ▶ £1.0M Overstatement of expenditure. Impact on NDR levy as a result of the NDR provision adjustment.
- ▶ £243k Overstatement of expenditure. Prepayment in relation to Northgate Contract not appropriately recorded
- ▶ £850k Understatement of expenditure. Correction of movement of school cash and bank for 16/17 conversions of two schools
- ▶ £773k Understatement of expenditure due to incorrect reversals of impairments.
- ▶ £332k Understatement of grant income as quarter 4 payment not accrued



## Audit Differences

For the benefit of the Audit and Governance Committee and considering the nature and complexity of the 16/17 audit we would also like to bring to your attention the corrected known adjustments above £234,624 (5% of materiality).

### Summary of adjusted known differences above £234,624

#### PROVISIONS:

- ▶ £1.7M Understatement due to omission of Local Authority insurance provision
- ▶ £787k Overstatement of provisions - provision could not be supported
- ▶ £1.8M Reclassification error - Accumulated absences accrual should be included within creditors

#### GROUP ACCOUNTS:

- ▶ £1.4M Overstatement of Current Fixed assets and £969k understatement of Non-current assets as figures provided were up until 13<sup>th</sup> March 2017 only.
- ▶ £1.1M Overstatement of Current Liabilities and £839k understatement of Non-current liabilities as figures provided were up until 13<sup>th</sup> March 2017 only.

#### FI:

- ▶ £592k Waste PFI adjustment
- ▶ £845k Waste PFI adjustment - release of deferred income



# Audit Differences

## Summary of adjusted disclosure differences

We highlight the following material disclosure errors which have been corrected by management that were identified during the course of our audit:

### **Movement In Reserves Statement (MIRS):**

- ▶ Statement did not meet the minimum disclosure requirement of the code.
- ▶ The reserve balances were shown as debit rather than credit balances.
- ▶ Misunderstanding of statutory movements and those between earmarked reserves

### **Expenditure and Funding Analysis Statement (EFA):**

- ▶ Incorrectly disclosed as a primary statement & did not reconcile to the accounts & narrative forward
- ▶ Where column 1 of the EFA includes material items of income and/or expenditure that are named in Para 3.4.2.99 of the Code these required to be analysed in the disclosure note over the named segments. No such note had been included in the statement of accounts.

### **Balance Sheet:**

- ▶ The Capital Grants Unapplied and the Capital Receipts Reserve were shown as General Reserves. These are usable reserves but are statutory reserves and are not part of the wider GF reserves.
- ▶ The signage in the reserves part of the statement was incorrect.
- ▶ Available for sale FIs and ST investments are quantitatively material but are not referenced to relevant notes in the disclosures.

### **Comprehensive Income and Expenditure Statement:**

- ▶ The comparatives for the previous year merely show the net expenditure rather than full restatement which would be gross expenditure and income.
- ▶ The Council has not separately identified those material items of "Other Comprehensive I&E" between those that will be reclassified to the (surplus) or deficit on the provision of services and those that will not.
- ▶ NDR is shown net of the levy which is a material amount and therefore would expect to see separate disclosure of this amount.
- ▶ Para 3.4.2.43 of the Code requires an expenditure and income analysed by nature note of the CIES. This note must as a minimum show employee benefit expenses and depreciation, amortisation and impairment which it did not
- ▶ HRA income & Expenditure incorrectly recorded with Environmental income which is not in line with management reporting.

### **Group Accounts:**

- ▶ Omission of Reading Hampshire property LTD within group accounts as the company is qualitatively material.
- ▶ The balance sheet shows a positive General Fund and a negative P&L on consolidation these should be merged showing a negative overall Group General Fund balance, which is the true position.



# Audit Differences

## Summary of adjusted disclosure differences

We highlight the following material disclosure errors which have been corrected by management that were identified during the course of our audit:

### Housing Revenue Account (HRA):

- ▶ Incorrect Social Housing Factor had been used in the valuation of the HRA stock. This had a material impact on the valuation given the size of the HRA asset base.

### Note 1 - Statement of accounting policies:

- ▶ Many policies were not code compliant / not reflective of processes actually followed by the council.

### Note 3 - Assumptions Made About the Future & Other Major Sources of Estimation Uncertainty:

- ▶ Incomplete consideration of all key assumptions and major sources of estimation uncertainty.

### Note 7 - DACHS Pooled Budget Information:

- ▶ Further clarification of key aspects of the specific arrangements in effect in respect of Pooled Budgets.

### Note 11 - Related Parties:

- ▶ The Council had excluded the Reading-Hampshire Property Partnership on the grounds of quantitative materiality. However, for Group accounts it is qualitative materiality that is the initial consideration and a key component of that is the assessment of whether the organisation is delivering a key service, therefore should be consolidated.

### Note 15 - Amounts included in the MIRS:

- ▶ Signage incorrect

### Note 16 - Exit Packages:

- ▶ Errors identified within allocation of remuneration bandings



# Audit Differences

## Summary of adjusted disclosure differences

### Note 18 - Non-Current Assets:

- ▶ The Code sets out a requirement for separate disclosure notes on PPE, investment properties and Assets held for sale but this had not been done.
- ▶ The table stated that impairment reversals are credit balances to gross book value when they are increases to the valuation and therefore debits.
- ▶ The policy stated that where there is expenditure on enhance of non-current assets if the in-year expenditure is less than 10% of the value of the assets then the expenditure is impaired and shown as an historic impairment. The impact of this treatment was such that the value of any single asset could potentially be understated by 10% which cumulatively could be material.
- ▶ There was no deminimis applied to capital expenditure as per the original accounting policy on non-current assets. It is commonly accepted that there should be a deminimis applied to capital expenditure .
- ▶ The valuation date of non-current assets was 1<sup>st</sup> April. The council could not evidence that a year end assessment had taken place to understand if the valuation date of 1<sup>st</sup> April was still materially correct for the effective valuation balance sheet date of 31<sup>st</sup> March.
- ▶ Surplus assets are covered by IFRS 13 and it is expected that the carrying value should be 'best use' value. The council could not demonstrate that this had been considered as part of the valuation programme.

### Note 27 - Capital Commitments:

- ▶ Omission of one capital commitment over £1M
- ▶ Council were unable to provide a 16/17 figure for the Transport Consultancy Support commitment.

### Note 31 - Post employment benefits:

- ▶ The current service costs shown in Note (a) does not agree to the current service costs shown in Note (b)

### Note 32 - Contingent liabilities:

- ▶ Omission of contingent liability

### Collection Fund:

- ▶ Income is shown as a debit rather than a credit balance meaning that as shown the statement does not cast
- ▶ The prior year comparatives do not separately identify council tax and NDR movements as required by the Code.
- ▶ The income total in the comparators has double counted the business rates receivable and been overstated by £109.335M with associated errors in the in-year movement and the closing balance amount.



# Audit Differences

## Summary of unadjusted judgemental differences

In addition we highlight the following judgemental misstatements to the financial statements and/or disclosures which were not corrected by management above £234,624. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

The Council were unable to provide sufficient support for the followings amounts (journal description included for reference):

### RECEIVABLES:

- ▶ DR [£278,765] 'CSS 16-17 TRANSFER OF BALANCE FROM 16-17 TO 17-18 cc2406'.
- ▶ DR [£446,979] 'Academy system Debtors/HB transfers - journal required'
- ▶ CR [£280,592] 'Academy - Internal differences in system per reconciliation (system balance is £13,625,882.88'
- ▶ CR [£466,722] 'Civica Cash journal required to R9826'
- ▶ CR [£918,167] 'Civica Cash correction required to R9826'

### PAYABLES:

- ▶ [£325,975] \*no journal description\*
- ▶ [£264,087] '17-18 SEN provision'
- ▶ [£236,345] \*no journal description\*
- ▶ [£200,378] 'Transfer from AP control code (R-9886-9841-000000-00) - Recode AC DACHS AM Civica Bank Suspense 001Standard'
- ▶ DR [£506,682] 'Journals on 9886-9841 to be investigated (See reconciliation)'
- ▶ DR [£489,732] 'DCEEHS AJ 1617 ADJ 20ASundry Creditor/Debtor'
- ▶ DR [£466,054] 'Faster Payments/CHAPS correction (See reconciliation)'

### ASSET DISPOSALS:

- ▶ [£985,188] 'Electronic Government (IEG) (2013-2014)'
- ▶ [£475,235] 'ESCR'
- ▶ [£79,772] 'Energy Management'
- ▶ [£227,283] 'Capitalisation (2011-2012)'

### ASSET ADDITIONS:

The council were able to provide support for the following additions but these errors have been classified as judgemental as they are pervasive across the cost centre.

- ▶ [£230,247] over accrued at year end and therefore incorrectly capitalised
- ▶ [£1,550] Legionella works on properties inappropriately capitalised as this constitutes maintenance. Search for the word 'Legionella' within cost centre journal descriptions gives £117,000 of incorrect capitalisation.
- ▶ [£1,239] fire risk assessments inappropriately capitalised as this also constitutes maintenance. Search for the word 'fire risk' within cost centre journal descriptions gives £130,000 of incorrect capitalisation.



# Audit Differences

## Summary of unadjusted judgemental differences

Extrapolation of errors identified within our sampling of Receivables and Payables.

### PAYABLES:

- ▶ £8.5M extrapolation error

Total population of transactions under threshold of £115,000 = £17,034,181.

Total balance tested by EY was £19,811.07.

Total error within this amount £9,922.18

Error % = 50%.

### RECEIVABLES:

- ▶ £5.5M extrapolation error

Total population of transactions under threshold of £234,000 (absolute value) = £13,753,820

Total balance tested by EY was £2,162,577

Total error within this amount £871,361

Error % = 40%.

As per the Executive Summary and also the Audit Report at Section 3 we have qualified on these balances and also the associated Comprehensive Income and Expenditure Accounts due to the material nature of these extrapolated errors.



# Audit Differences

## Summary of unadjusted known differences

### **IAS 19 LIABILITY - SCHEME ASSETS:**

We identified the following differences between the value of scheme assets as per the financial statements as estimated by the scheme actuary and the actual outturn as per the audited financial statements of the Pension Fund Accounts.

Scheme Assets understated by £3,123 m

As per the Executive Summary and also the Audit Report at Section 3 we have qualified on these balances and also the associated Comprehensive Income and Expenditure Accounts due to the material nature of these errors in conjunction with the other unadjusted balances noted.

### **OTHER:**

- ▶ £695k total of unrecorded liabilities at 31<sup>st</sup> March 2017 identified in bank statement post year end
- ▶ £546k Omission of Housing benefit accrual

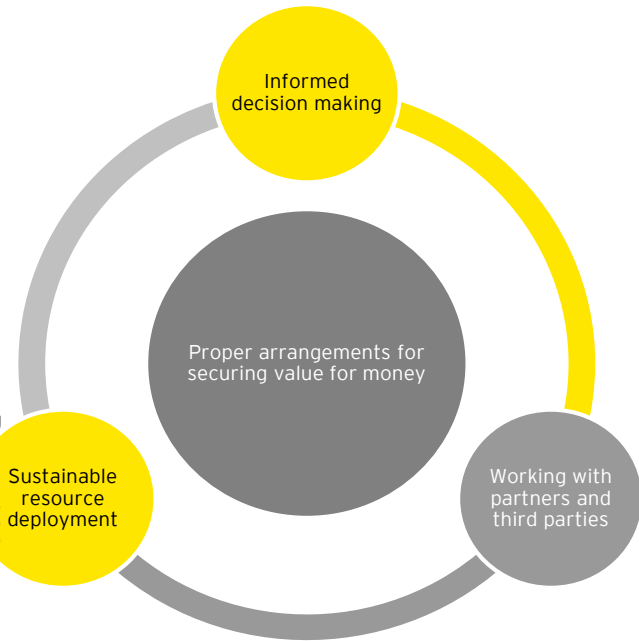




05

# Value for Money





## Background

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2016/17 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Overall conclusion

We identified 1 significant risk around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

We therefore plan to report an adverse value for money conclusion about your arrangements to secure economy, efficiency and effectiveness in your use of resources. We have included our draft VFM adverse value for money conclusion at section 3 within this report.

In addition to our in-year responsibilities in respect of the value for money conclusion we also need to consider any prior year recommendations made under the s.24 recommendations and progress made against these. In 2015/16 we made a number recommendations under Section.24 and in line with our statutory powers we reported these to the Secretary of State. We detail our consideration of the Section.24 recommendations in the tables below.



## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

### What is the significant value for money risk?

Delivering Financial Resilience

### What arrangements did the risk affect?

Take informed decisions / Deploy resources in a sustainable manner/ Work with partners and other third parties

### What are our findings?

We found that the action to achieve sustainable financial savings during 2016/17 did not achieve the required savings. The 2016/17 outturn was an overspend of circa £7.5 m and required the use of reserves to balance the budget. The Council are also predicting the use of reserves in 2017/18.

We found that the financial and performance information used by the Council is not always reliable and accurate and therefore did not help informed decision making

We also found that financial reporting was not reliable throughout 2016/17



## Other matters to bring to your attention

We noted the following issues as part of our audit

### What are our findings?

#### 1. Control Observations:

In addition we found that some of the basic financial controls were not working as expected, for example, the regular completion of reconciliations is not timely, the year-end bank reconciliations did not balance and there were no controls over the production or posting of journals during financial year 2016/17. This increases the risk of fraud and errors remaining undetected. (Sustainable Resource Deployment).

#### 2. Children's Services:

In August 2016, Ofsted issued an inspection report of services for children in need of help and protection; children looked after and care leavers and a review of the effectiveness of the local safeguarding children board. It concluded that Children's services in Reading are inadequate and found serious, persistent and systemic failures in the services provided to children who need help and protection. The Inspection found that children are left too long in situations of unknown and acute risk. The Council accepted the findings of the Inspection and put in place procedures to improve performance. Ofsted have monitored progress since the issue of its initial a report and in its last update letter, issued in June 2017 concluded that the Council is not making the expected progress in improving services for its children and young people. (Informed Decision Making, Sustainable Resource Deployment and Working with Partners & Third Parties).



# 06 Other reporting issues



## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2016/17 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2016/17 and published with the financial statements was consistent with the audited financial statements except for a number of disclosures in respect of reconciling the budgeted information to the Expenditure & Funding Analysis. This has now been corrected in the final version of the financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report. We noted the action plan in place to address some of the governance issues identified and have seen evidence of this being discussed throughout the duration of the audit at the Audit and Governance Committee.

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have discussed the Whole of Government Accounts return with the relevant government department and they have confirmed that due to the delays in certifying the accounts and issuing the opinion that we are not required to complete a full review.

# Other reporting issues

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues in 2016/17 but have noted the recommendations we made in 2015/16 and the progress made against these. We have detailed our consideration of these within Section 5 within this report - Value for Money.

Page 145

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;

We note our consideration of the items above within this report.

We have nothing to report in respect of these items noted below.

- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits



07

# Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies identified during the course of the audit:

Please find more detail on these and other deficiencies identified on the following slides.

### Significant Deficiencies identified:

- System Reconciliations (High)
- Journal & authorisation controls (High)

### Other Deficiencies identified:

- Receivables
  - Untimely raising of invoices (Mod)
  - Sundry debt managed outside of the finance department (Mod)
  - Lack of controls over raising of credit notes (Mod)

### Payables:

- No formal accreditation process (Mod)

### I&E:

- Internal re-charging (Mod)
- Accruals (Mod)

### HRA:

- Business Plan (Mod)

### Committees & Lack of regular KPI monitoring:




- KPI's (High)

### Earmarked Reserves:

- Lack of Formal Approval (Mod)

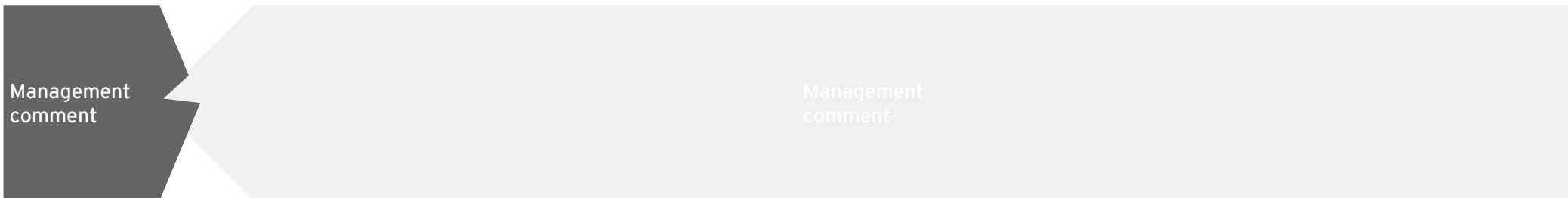
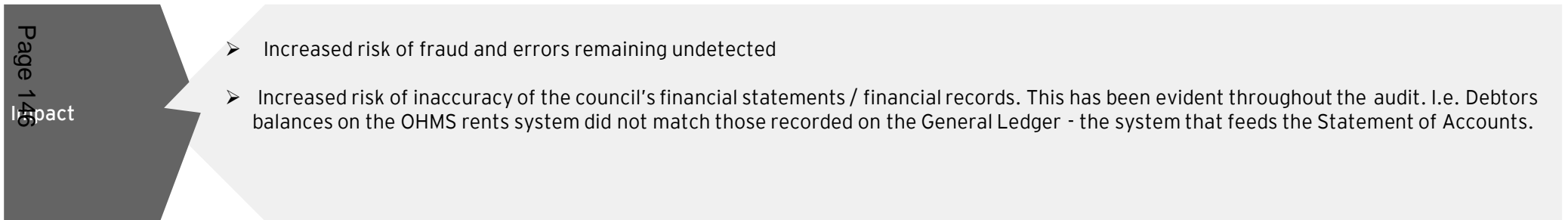
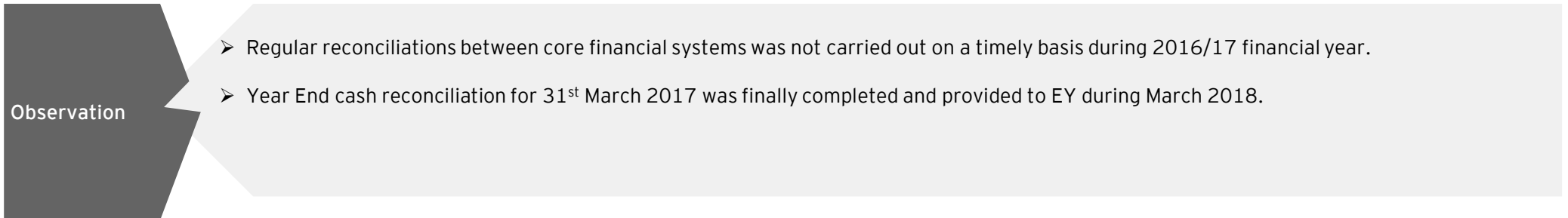
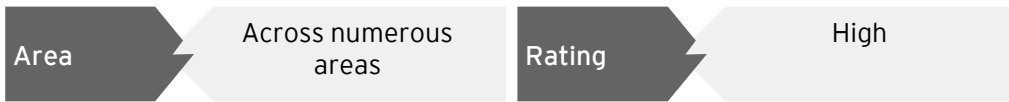
The table below provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2016/17 audit. At the completion of the audit we will issue a formal management letter containing all of the identified points.

	High	Moderate	Low	Total
New points raised in 2016/17	3	8	0	11
<b>Total open points as at 31<sup>st</sup> March 2017</b>	<b>3</b>	<b>8</b>	<b>0</b>	<b>11</b>

- Key:
-  A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.
  -  Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within six months.
  -  Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within three months.

The matters reported on the following slides are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

# Assessment of Control Environment - Reconciliations





# Assessment of Control Environment - Journals

Area	Across numerous areas	Rating	High
Observation	<ul style="list-style-type: none"><li>➤ No authorisation controls around posting of journals</li><li>➤ Supporting documentation not required when posting journals onto the system</li></ul>		
Page 17 Impact	<ul style="list-style-type: none"><li>➤ Increased risk of fraud.</li><li>➤ Increased risk of errors. Throughout the audit we evidenced staff posting journals the wrong way round and/ or incorrect double entries into accounts. 2,522 journals lines contain the word 'correction' within the journal description.</li><li>➤ Council unable to provide supporting rationale to audit for numerous journal postings.</li><li>➤ Lack of control over the General Ledger since any member of staff with access to the ledger can post a journal / set up new ledger codes. During the audit we found many instances of journal postings that could not be traced back to the originator. We identified 13,596 unused ledger codes in 16/17.</li><li>➤ Inefficiencies - staff individually posting journals of very low value</li></ul>		
Management comment	Management comment		

# Assessment of Control Environment - Receivables

Area	Receivables	Rating	Moderate
Observation	<ul style="list-style-type: none"> <li>➤ Sales invoices are not being raised in a timely manner</li> <li>➤ Through our disposals testing we identified that the council had not raised invoices to the buyer of a fleet of 11 trucks. As a result of our prompt, an invoice was raised (April 2018) and cash was received in August 2018 for £33,000 + VAT</li> </ul>		<ul style="list-style-type: none"> <li>➤ Sundry debt is being managed outside of the finance department</li> </ul>
Page 148 Impact	<ul style="list-style-type: none"> <li>➤ Increased risk of sales invoice never being raised</li> <li>➤ Increased risk of non payment due to time lag</li> <li>➤ Increased risk of fraud</li> <li>➤ Inaccurate picture of debtors position at any point in time</li> </ul>		<ul style="list-style-type: none"> <li>➤ Leads to lack of ownership/review with no clear process for debt recovery increasing the risk of non payment</li> <li>➤ Increased risk of errors. We came across an error where cash had been incorrectly matched against HB debtors instead of sundry.</li> </ul>
Management comment			



# Assessment of Control Environment - Receivables & Payables

Area	Receivables	Rating	Moderate	Area	Payables	Rating	Moderate
Observation	➤ No controls over raising credit notes. We did not identify any fraudulent usage during the audit but did identify evidence of a large number of credit notes being used for incorrect purposes.			Observation	➤ There is no formal accreditation process for the majority of suppliers - no management of supplier database.		
Page 119 Impact	➤ Increased risk of fraud through mis-use.			Impact	➤ Increased risk of fraudulent payments being made ➤ Increased risk of duplicate payments being made ➤ Supplier chosen may not be in the best interest of the council		
Management comment				Management comment			

# Assessment of Control Environment - Internal re-charging

Area	Income and Expenditure	Rating	Moderate
------	------------------------	--------	----------

**Observation**

- Many instances identified where the council are charging income and expenditure based on an historic cost and the figure being rolled forward for many years without further consideration whether it is still appropriate. Particularly an observation for internal fee recharging.

For example, we identified instances of capitalisation of internal fees for property service staff at 10% of the project predicted or actual cost. The council were unable to provide rationale behind this percentage other than this figure has always been used.

**Page 150  
Impact**

- Inaccurate records of actual income and expenditure incurred by the council potentially impacting management budgets / decisions.
- Inappropriate capitalisation

**Management comment**

Management comment



# Assessment of Control Environment - Accruals

Area	Income, Expenditure, receivables and payables	Rating	Moderate
Observation	<ul style="list-style-type: none"><li>➤ Many instances of over and under accruing when sufficient data is available to provide a more accurate measurement</li></ul> <p>For example, a community service accrual has been raised for £250k for a number of years despite actual expenditure increasing year on year. Prior year accrual was understated by £410k.</p>		
Page 101 Impact	<ul style="list-style-type: none"><li>➤ Income and expenditure being recorded in the incorrect financial year</li><li>➤ Over or understatement of creditors</li><li>➤ Incorrect reflection of financial position impacting management budgets /decisions</li></ul>		
Management comment	Management comment		



# Assessment of Control Environment

Area	Housing Revenue Account Business Plan	Rating	Moderate	Area	Key Performance Indicator's (KPI's)	Rating	High
Observation	<ul style="list-style-type: none"> <li>➤ As part of the audit we reviewed the HRA Business Plan. From the evidence presented to us it was clear that this was not a fully developed business plan which had been fully approved by the Council.</li> </ul>			Observation	<p>As part of our wider VFM considerations it quickly became apparent that there was a lack of KPI's which were being regular monitored at a senior committee level.</p>		
Page 152 Impact	<ul style="list-style-type: none"> <li>➤ If the council are to fully realise their strategic objectives then it is vital that business plans are fully developed and have the buy in from all relevant stakeholders.</li> </ul>			Impact	<ul style="list-style-type: none"> <li>➤ A lack of KPIs leads to a lack of accountability and an inability to monitor performance against key strategic objectives.</li> </ul>		
Management comment				Management comment			





# Assessment of Control Environment

Area	Earmarked Reserves	Rating	Moderate
Observation	<ul style="list-style-type: none"><li>➤ We noted as part of our work on earmarked Reserves that there was no formal authorisation process for movements on earmarked Reserves. We would recommend that these are formally approved and discussed at the appropriate committee as part of the ongoing consideration of the Reserve position at the Council.</li></ul>		
Page 153 Impact	<ul style="list-style-type: none"><li>➤ As part of formal governance arrangements this is considered to be good practice and good governance.</li></ul>		
Management comment			



# Assessment of Control Environment

## Reliance on internal audit

During the 2016/17 financial year we met with Internal Audit on a number of occasions to discuss the scope of their work, their findings and also gauge an understanding of ongoing control issues.

We have reviewed internal audit reports issued to management to date since 1<sup>st</sup> April 2016; this is to ensure that any financial statement risks are identified are considered in determining the extent of our audit procedures.

The work carried out by internal audit has supported our audit procedures, but we have not placed reliance on their work.

We have also obtained responses from the Head of Internal audit (March 2017 and updated May 2018) in relation to our standard audit fraud inquiries and have asked to be kept updated throughout the audit.

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## Status of previous year's recommendations

Items below have been extracted from the 15/16 Audit Results Report & do not re-iterate the control deficiencies highlighted in the S.24 report previously mentioned in this report.

Description	Update
Supplier Management	
Privileged Account Management	
User Administration	
Change Management	
Leaver Management	
Applications and infrastructure security settings	

Challenges going forward have been highlighted in the previous slides.



# 08 Data Analytics



# Use of Data Analytics in the Audit

## ► Data analytics

### Analytics Driven Audit

#### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2016/17, our use of these analysers in the authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

#### Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



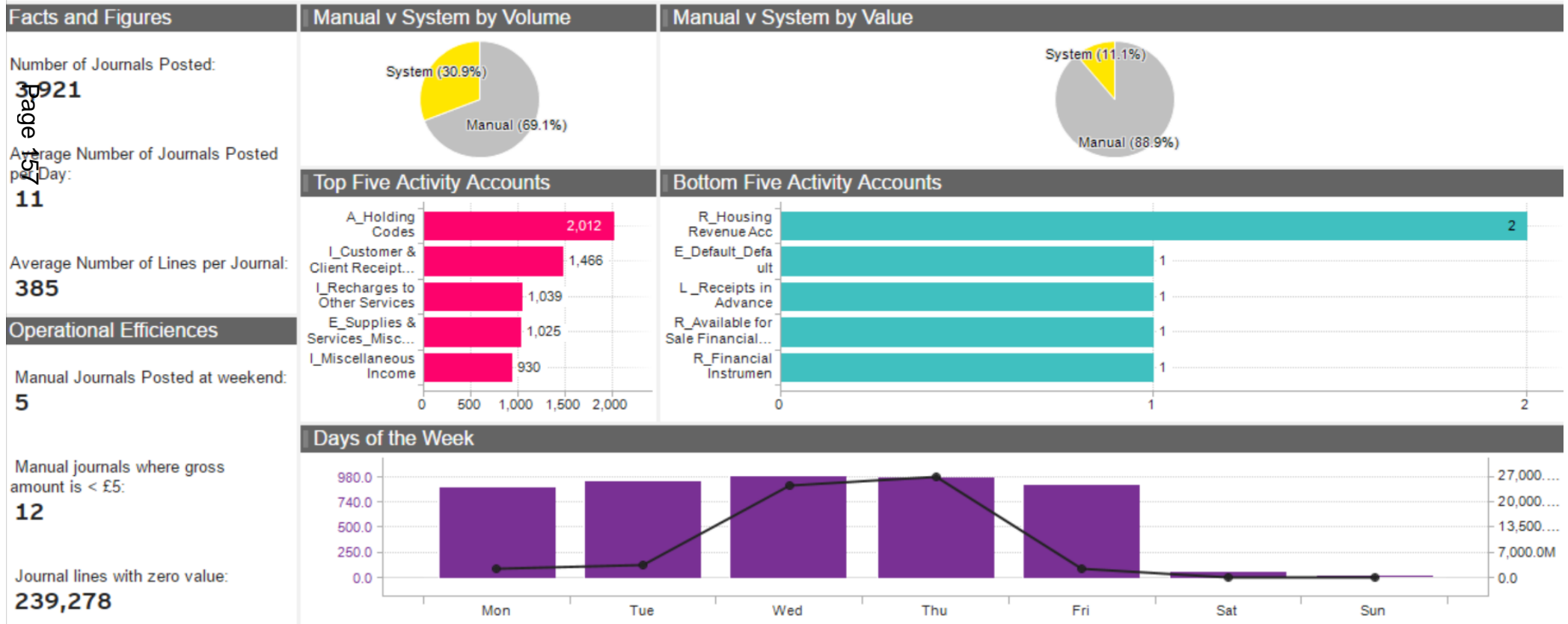
# Data Analytics

## Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2016/17. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples. We have also shared this information with management during the course of the audit to provide additional insight and value from our audit procedures.

### EY Helix - GLASS: Journal Entry Data Insights - Reading BC - 31/03/2017





## Journal Entry Testing

### What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

### What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.



### What did we do?

For example, we identified all journals with the word 'instructed' contained within the journal description.

From this we were able to review all journals and identify any that may highlight a risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

### What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



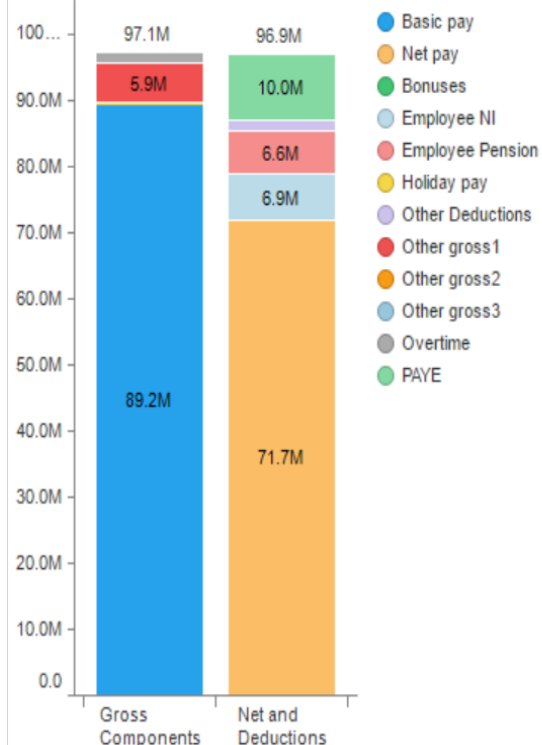
## Payroll Analyser Insights

The graphic outlined below summarises the payroll data for 2016/17. We review transactions for payroll at a more granular level, which allows us to identify items with a higher likelihood of containing material misstatements or to identify unusual patterns within a population of data and to design tests of details. This allows us to provide a more effective and risk focused audit on payroll, improving efficiency for both audit and the management as we reduce the need for evidence support for larger random sample.

### EY Helix - Payroll Analyser: 1. Payroll Overview

#### 1.0 Pay Distribution by Location

#### 1.1 Payroll Summary



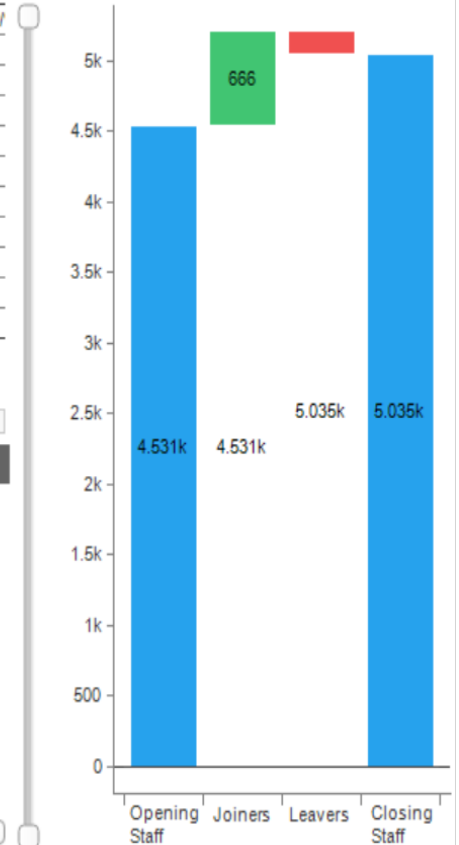
#### 1.2 Transaction Summary

Column	Value	% of Gross
Basic Pay	89.2M	92.1%
Overtime	1.6M	1.7%
Holiday pay	289.4k	0.3%
Bonuses	(Empty)	(Empty)
Other gross1	5.9M	6.1%
Other gross2	(Empty)	(Empty)
Other gross3	(Empty)	(Empty)
Gross Pay	96.9M	100.0%
Net Pay	71.7M	74.0%
PAYE	10.0M	10.4%
Employee NI	6.9M	7.1%
Employer NI	8.5M	8.7%

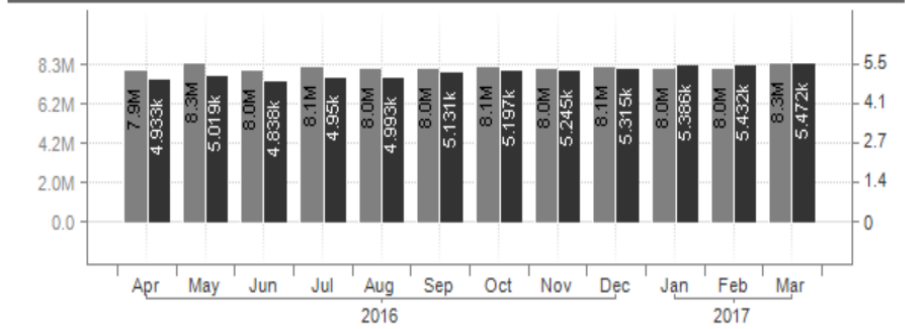
#### 1.3 Data Insights

	Gross	#/
Staff Turnover		
Employees not in Master File	4.3M	
Employees not in Transactions	0.0	
Payments after Leave Date	191.9k	
Payments before Join Date	(Empty)	
Largest Gross Payment	51.9k	
Average Gross Payment	1.6k	
Smallest Gross Payment	-2.5k	
Employee(s) under minimum wage		
Highest Paid Employee : Median Employee		

#### 1.5 Employee Movement



#### 1.4 Monthly Trending Analysis of Gross Pay and Employee Count

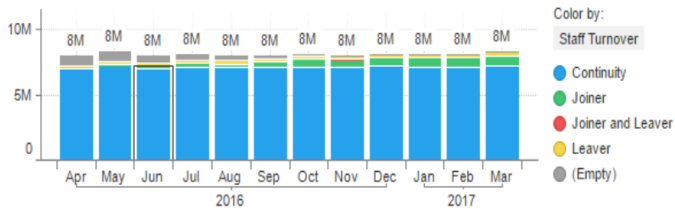




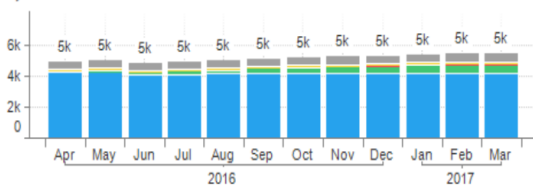
## Payroll Testing

### 4.0 Monthly Summary: Gross pay by Posting Date

Gross pay Amount



Employee Count



### 4.1 Monthly Summary: Gross pay

Please select from bar or line graph in 4.0 to limit data shown.

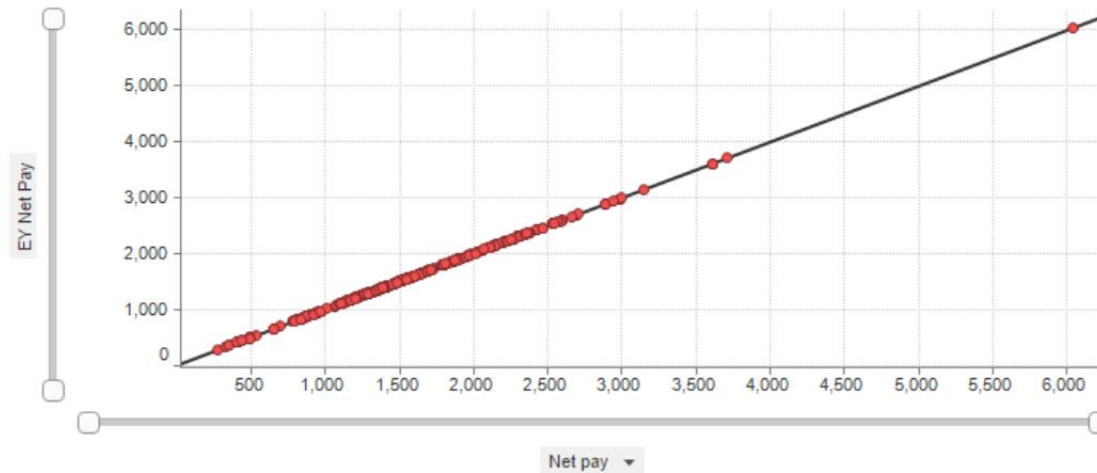
Year	Month	Total Gross pay	Avg Per Transaction	% of Gross Pay	Nil Payments / Total	Monthly % Change	
2016	Apr	7,939,493.33	1,609.47	100.00%	416/4933		
	May	8,267,248.72	1,847.19	100.00%	355/5019	4.1	
	Jun	7,955,011.05	1,644.28	100.00%	338/4838	-3.7	
	Jul	8,121,582.64	1,840.72	100.00%	313/4950	2.0	
	Aug	8,027,261.22	1,607.70	100.00%	509/4993	-1.1	
	Sep	7,997,528.93	1,558.67	100.00%	757/5131	-0.3	
	Oct	8,103,119.30	1,559.19	100.00%	725/5197	1.3	
	Nov	8,014,422.72	1,528.01	100.00%	783/5245	-1.0	
	Dec	8,079,285.42	1,520.09	100.00%	825/5315	0.8	
	2017	Jan	8,030,294.96	1,490.96	100.00%	929/5386	-0.6
		Feb	8,024,619.49	1,477.29	100.00%	968/5432	-0.0
		Mar	8,306,289.13	1,517.96	100.00%	1031/5472	3.5
Grand total		96,866,156.91	1,564.60	100.00%	7949/61911	0.0	

### What judgements are we focused on?

Using our analysers we are able to identify anomalies in the payroll data which allow us to focus our testing and enquires over unusual or unexpected transactions.

### 11.0 EY Net Pay vs. Net pay

EY Net pay is calculated from: Gross pay - PAYE - Employee NI - Other Deductions - Employee Pension. Points on the chart are labelled as Employee Name - Employee Number Transaction ID. Any points that deviate from the line should be investigated.



### What did we do?

We obtained payroll data for the period and have used our analysers to identify unusual payments based on expectations of average pay per designation, date inconsistencies where payments made to individuals after they have left the organisation or before they have joined and payments made in the year that appears anomalous compare to average monthly payments.

We then tested the anomalies to determine if they were appropriate and reasonable.

### What are our conclusions?

We isolated a sub set of anomalies for further investigation and obtained supporting evidence to verify the transactions and concluded that they were appropriately stated.





09

# Independence

## Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 19<sup>th</sup> January 2017.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit and Governance Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit and Governance Committee.

We confirm we have undertaken non-audit work outside the PSAA Code requirements in relation to our work on the Investment Property Acquisition process. We have adopted the necessary safeguards in our completion of this work.

# Independence



## Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 01<sup>st</sup> April 2016 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31<sup>st</sup> March 2017 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided and the related threats and safeguards are detailed above.

We confirm that none of the services listed in the table below has been provided on a contingent fee basis.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31<sup>st</sup> March 2017.

We confirm that we have undertaken non-audit work outside the PSAA Code requirements. Details of the non-audit work can be found in the table below.

We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.

	Final Fee 2016/17	Planned Fee 2016/17	Scale Fee 2016/17	Final Fee 2015/16
	£	£	£	£
<b>Total Audit Fee - Code work</b>	<b>TBC***</b>	<b>£108,938</b>	<b>£108,938</b>	<b>£186,144*</b>
Housing Benefits Subsidy	£18,623 **	£12,458	£12,458	£34,591
Non-audit work - Housing Capital Receipts certification	£6,000	£6,000	N/A	£6,000
Non-audit work - Teacher's Pensions certification	£10,000	£10,000	N/A	£10,000
Non-audit work - Investment Property Acquisition Review (EY Valuations)	£20,000	£20,000	N/A	N/A
<b>Total non-audit services</b>	<b>£36,000</b>	<b>£36,000</b>	<b>N/A</b>	<b>£16,000</b>

\*: The final fee for 2015/16 includes £77,206 of additional fee in respect of delays in certifying the 2015/16 audit

\*\* : The final fee for the Housing Benefits 2016/17 subsidy certification includes an additional fee of £6,165 in respect of additional work required to review errors beyond what was included in the base fee

\*\*\*: There will be a significant additional fee in relation to the significant audit overruns identified on the 2016/17 audit. These fees are likely to be significant in relation to the scale fee given the significant overruns experienced on the audit. We will confirm our final fees following the completion of our audit work and report this within the Annual Audit Letter. Any additional fee will need to be approved by the PSAA Ltd in line with the relevant protocols

All fees noted above are exclusive of VAT







# 10 Appendices

## Appendix A

# Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report presented to the January 2017 Audit & Governance Committee	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report presented to the January 2017 Audit & Governance Committee	
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	This report presented to the Audit & Governance Committee on 23 July 2019	

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	The council are still providing services to the community 12 months on from 31 <sup>st</sup> March 2017 and therefore the presentation and going concern assumption in the 16/17 financial statements is accurate.
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	See section 4 within this report.
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	This report presented to the Audit & Governance Committee on 23 July 2019
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	This report presented to the Audit & Governance Committee on 23 July 2019

# Appendix A





		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	This report presented to the Audit & Governance Committee on 23 July 2019
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit planning report presented to the January 2017 Audit & Governance Committee; and this report presented to the Audit & Governance Committee on 23 July 2019



# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> <li>▶ Management’s refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	This report presented to the Audit & Governance Committee on 23 July 2019
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	This report presented to the Audit & Governance Committee on 23 July 2019
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit. We have highlighted these in further detail within this report</li> </ul>	This report presented to the Audit & Governance Committee on 23 July 2019




# Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Group Audits	<ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team’s planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team’s evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor’s work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team’s access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul>	Audit planning report presented to the January 2017 Audit & Governance Committee; and this report presented to the Audit & Governance Committee on 23 July 2019
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	This report presented to the Audit & Governance Committee on 23 July 2019
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	This report presented to the Audit & Governance Committee on 23 July 2019
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor’s report</li> </ul>	This report presented to the Audit & Governance Committee on 23 July 2019
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit planning report is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit planning report presented to the January 2017 Audit & Governance Committee; and this report presented to the Audit & Governance Committee on 23 July 2019
Certification work	<ul style="list-style-type: none"> <li>▶ Summary of certification work</li> </ul>	Certification Report presented to the April 2018 Audit & Governance Committee

## Appendix B

# Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Receipt of final signed financial statements	Accounts to be formally approved and signed	Management & EY on receipt
Management representation letter	Receipt of signed management representation letter	Management and Audit & Governance Committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report including full minute reviews up to date of sign off	Management & EY on receipt



# Appendix E

## Management representation letter

Reading Borough Council 2016-17

### Management Rep Letter

To be prepared on the entity's letterhead]  
[Date]

Ernst & Young  
Apex Plaza  
Forbury Rd  
Reading RG1 1YE

Dear Maria,

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Reading Borough Council ("the Group and Council") for the year ended 31<sup>st</sup> March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Reading Borough Council as of 31<sup>st</sup> March 2017 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

We acknowledge and accept the qualifications that you have highlighted in the following significant accounts and disclosures:

Short-term Debtors;  
Short-term Creditors;  
Income and Expenditure;  
IAS 19 Scheme Assets

We also acknowledge the mis-statements which you have identified during your audit which has resulted in the qualifications on these areas. We comment further on the unadjusted audit differences schedule later in this letter but for the sake of clarity any reference to unadjusted audit differences refers solely to items not subject to any of the specific areas of qualification as noted above.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### **A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We acknowledge, as members of management of the Group and Council, that due to the issues identified during the audit that we have significantly missed the deadline for the certification of the 2016/17 accounts.

# Management representation letter

Reading Borough Council 2016-17

## Management Rep Letter

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2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. With the exception of the items referenced above which are subject to qualification we have approved the consolidated and council financial statements and notes.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

4. We recognise that the Council's system of internal controls has been deficient in a number of key areas; the Council have addressed this through a combination of implementing new systems and procedures as well as training. Whilst these will take some time to embed and will reap further benefit in subsequent years, we believe they are adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 for the Group and for the Council that are free from material misstatement, whether due to fraud or error.

5. The unadjusted audit differences (£546k in relation to a Housing Benefit accrual and £695k in relation to other accruals) detailed in the accompanying schedule and accumulated by you during the current audit are, we believe; immaterial, both individually and in the aggregate to the financial statements. Our basis for determining this is that in relation to the Housing Benefit accrual it is the Council's practice to account for 52 weeks of Housing Benefit payments in a year and not adjust for payments made in April that refer to the previous year. Making the proposed adjustment would not be consistent with previous years and result in 53 weeks payments within the year rather than 52.

6. In respect of the other accumulated accruals (£695k relating to eleven payments made in April 2017) the Council has decided not to adjust for these payments as none of them are material in the context of the particular budgets to which they pertain, with two thirds of the items being small capital programme payments.

### **B. Non-compliance with law and regulations, including fraud**

1. We acknowledge that we are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations. We are aware that a number of frauds have been identified during the 2016/17 financial year but confirm that we are not aware of any such instances that may have materially affected the Group or Council financial statements during 2016/17 (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

# Management representation letter

## Management Rep Letter

### **B. Non-compliance with law and regulations, including fraud (cont'd)**

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group and Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others.

### **C. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and council financial statements with the exception of those accounts which have resulted in qualification and have been previously referenced within this letter.

3. We have made available to you all minutes of the meetings of the Council, and all relevant committees including Audit & Governance, Cabinet & Council held through the period to the most recent meeting on the following date: 15<sup>th</sup> July 2019.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable. We acknowledge that a number of material mis-statements have been required to adjust for some of the original assumptions applied and this has also resulted in a number of prior period adjustments which are detailed further below.

6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt. We acknowledge that where we have been able to fully evidence support for debtor balances that this has resulted in a qualification on this significant account as previously detailed within this letter.

# Management representation letter

## Management Rep Letter

### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

### E. Subsequent Events

1. Other than the disclosures described in Note 20 to the consolidated and council financial statements, there have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

### F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

### G. Expenditure & Funding Analysis

1. We have reviewed the new requirements (as set out in the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17), in relation to the preparation of the Expenditure Funding Analysis to replace the previous segmental reporting analysis, and confirm that all required amendments to the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, as well as the requirements to prepare the Expenditure Funding Analysis and related notes have been correctly reflected in the financial statements, including retrospectively reflecting this in the financial statements.

2. We confirm that the financial statements reflect the operating segments reported internally to the Council.

### H. Other information

1. We acknowledge our responsibility for the preparation of the other information, the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

# Management representation letter

## Management Rep Letter

### I. Comparative information - comparative financial statements

In connection with your audit of the comparative consolidated and council financial statements for the year ended 31<sup>st</sup> March 2017, we represent, to the best of our knowledge and belief, the following:

#### Prior Period Adjustments:

##### 1) Collection Fund:

As part of the preparation of the 2016/17 accounts, the Council identified that the establishment of the business rates appeals provision in 2013/14 had been understated by £9.6 m. £2.4 m of this was corrected in 2014/15 leaving an uncorrected understated balance of £7.2 m, the Council's share of which was £3.528 m (i.e. 49%).

Consequently, the balance on the Collection Fund Adjustment Account at 31 March 2015 was understated by £3.528 m, matched by an overstatement of debtors by £0.160 m, and an understatement of creditors by £3.368 m.

##### 2) Infrastructure Assets:

As part of the preparation of the 2016/17 accounts, it was identified that Infrastructure Assets had historically been depreciated on a reducing balance basis, instead of the Council's stated accounting policy to depreciate such assets on a straight line basis. As a result, depreciation was understated by £6.485 m to 31 March 2015 and £6.819 m to 31 March 2016.

### 3) Council Dwellings Valuations:

The carrying value of council dwellings valuations has been restated because: depreciation had been understated where revaluations had reversed impairments from previous years; and the basis for estimating the split of valuations between land and buildings for the purpose of estimating depreciation was restated to reflect actual land values for the HRA dwelling stock.

Whilst the overall valuation was unchanged for each financial year, the carrying value of the dwellings increased by £70.828 m to £399.359 m and £52.342 m to £452.706 m at 31 March 2016.

This adjustment also impacted on the Housing Revenue Account, reducing its balance by £0.147 m to £21.956 m at 31 March 2016, with a consequent increase in the Capital Adjustment Account balance of £48.261 m and an increase in the Revaluation Reserve balance of £4.318 m as at 31 March 2016.



# Management representation letter

## Management Rep Letter

### 4) North Whitley Housing (HRA) PFI Scheme:

A review of the financial model for the North Whitley PFI Scheme identified an error in the calculation of the overall liability of the scheme. The revised calculations are as follows:

- a reduction in the liability by £4.860 m from £26.237 m to £21.377 m at 1 April 2015. This is matched by an increase in the balance on the Capital Adjustment Account of £4.860 m;
- an increase in the charges to the HRA for the service charge and interest elements of the unitary payment of £0.689 m. This is matched by a reduction of £0.689 m in the principal repayment.

In addition, the projections of the future liabilities under the contract were overstated because inflation had been overstated and the projections did not take account of reductions in the housing stock from when the contract was let.

On recalculation, the combined effect of both these factors, and the reduction in the lease liability element of the contract, results in an overall reduction in projected liabilities of £13.759 m as at 31 March 2016, reducing the liability from £146.045 m to £132.286 m.

### 5) Other Land and Buildings' Valuations:

The value of all other land and buildings assets, previously valued in excess of £0.1 m, were revalued and the 2015/16 balance sheet restated, because:

- whilst the Council had revalued one-fifth of the property portfolio each year, no review had been undertaken to ensure that the varying values of the remaining four-fifths of the portfolio did not differ materially from the current value. A market report from a specialist valuation firm indicated that property market movements had moved materially for the entire asset portfolio. As a result, the Council engaged an external valuer to revalue all assets, at both 1 April 2015 and 31 March 2016, valued in excess of £0.1 m; and
- in previous years, the Council's accounting policy had been to impair capital expenditure where the expenditure was less than 10% of the asset value. This policy understated the carrying value of assets and thus depreciation charges and any revaluation gains.

The impact of these revaluations is to:

- increase the value of Property, Plant and Equipment at 31<sup>st</sup> March 2015 by £16.827 m and by £20.475 m at 31<sup>st</sup> March 2016;
- increase the balance on Unusable Reserves at 31<sup>st</sup> March 2015 by £18.774 m and by £18.883 m at 31<sup>st</sup> March 2016; and
- increase the net charge in the Comprehensive Income and Expenditure Statement in 2015/16 to Service for Depreciation and Impairment by £26.678 m

# Management representation letter

## Management Rep Letter

### 6) Assets Held for Sale:

As part of the preparation of the 2016/17 accounts, the Council identified that a number of assets held for sale were incorrectly classified as there was no active plans to dispose of them. As a result, the assets have been reclassified as Surplus Assets, which reduced the balance of Assets Held for Sale by £0.291 m and increased Surplus Assets by £0.291 m at 31<sup>st</sup> March 2015.

A further asset was reclassified at 31<sup>st</sup> March 2016, reducing the balance of Assets Held for Sale by £3.291 m and increasing the Surplus Assets balance by £3.291 m.

### 7) Investment Properties:

As part of the closure of the 2016/17 accounts, a review was conducted of the properties classified as Investment Properties. The Council considered whether the reason to hold each property was solely to earn rentals or for capital appreciation.

It was concluded that a number of buildings should be reclassified as operational Land and Buildings as there were other reasons to hold the property. As a result, £19.023 m of Investment Property assets have been reclassified to Other Land and Buildings as at 31 March 2016 (31 March 2015: £18.498 m).

### 8) Liabilities Reclassification:

A review of liabilities identified that the following items had been misclassified in the 2015/16 accounts and have been reclassified as follows: £3.300 m was reclassified from Creditors to Short Term Provisions at 31<sup>st</sup> March 2015, with £11.638 m similarly reclassified as at 31<sup>st</sup> March 2016 (excluding the adjustment above for the Collection Fund); and £1.020 m was reclassified from Short Term Lease Liabilities to Long Term Lease Liabilities at 31<sup>st</sup> March 2016

The comparative amounts have been correctly restated to reflect the above matters and appropriate note disclosure of these restatements have also been included in the current year's consolidated and council financial statements.

There have been no significant errors or misstatements, or changes in accounting policies, other than the matters described above, that would require a restatement of the comparative amounts in the current year's consolidated and council financial statements. Other differences in the amounts shown as comparative amounts from the amounts in the consolidated and council financial statements for the year ended 31<sup>st</sup> March 2017 are solely the result of reclassifications for comparative purposes.

### J. Ownership of Assets

1. Except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheets, and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheets.

2. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

# Management representation letter

## Management Rep Letter

### L. Use of the Work of a Specialist - Property, Plant & Equipment; & Pensions

1. We agree with the findings of the specialists that we engaged to evaluate the valuation assertion for Property, Plant and Equipment and Pensions and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### M. Estimates - Property, Plant & Equipment, Pensions & Provisions

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.

2. We confirm that the significant assumptions used in making the accounting estimate for property, plant and equipment, pensions and provisions appropriately reflect our intent and ability to carry out providing services on behalf of the entity.

3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting 2016/17.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and council financial statements due to subsequent events.

5. We confirm that we have made available to you all information in respect of the Equal Pay Provision.

### N. Retirement benefits

On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

### O. Conclusion

We confirm that, with the exception of the items referred to within this letter, there are no other events or representations that we need to bring to your attention in respect of the 2016/17 audit.

*Yours faithfully,*

\_\_\_\_\_  
Jackie Yates - Executive Director of Resources

\_\_\_\_\_  
Councillor David Stevens - Chairman of the Audit & Governance Committee

## EY | Assurance | Tax | Transactions | Advisory

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